This report investigates the extent to which the European Union’s Green Line Regulation (GLR) has contributed to the development of economic activity across the Green Line—which de facto divides Cyprus—through the movement of goods, services, and persons. The particular timeframe for the research focus is between 2004, the first year of the implementation of the GLR, and 2017, which is the most current period for which there are European Commission reports on the implementation of the Regulation. The perspective adopted is that the GLR not only aims to satisfy the legal ‘need’ of accommodating the de facto division of Cyprus into EU law but also intends to act as an implicit tool for developing ‘linkages’ in the form of economic and social connections between the Greek Cypriot and Turkish Cypriot communities. In other words the development of liberal peace principles in order to facilitate reunification of the island. This political objective can be found not only in the GLR references to promoting greater ‘contacts’, ‘cooperation’, ‘interdependence’, and ‘integration’ of the two communities, but also in other EU legislative instruments and statements regarding the Cyprus problem.

The examination of the implementation of the GLR over the last thirteen years found that, in terms of the legal aspects, (providing a workable basis) the GLR has been a significant success. This is because it contains an ingenious legal mechanism that provides a lawful basis for the movement of goods and persons between an unrecognized entity and its parent state. However, within the focus on the performance of the GLR in terms of the economic activity it has generated, the success has only been partial due to low levels of such activity. This is explained by two main factors: the design shortcomings of the GLR; and the obstacles to the cross-divide economic activity at the domestic level, which have intervened in this process (legal, administrative, political, and psychological). Within this perspective, the outcomes have also remained far below the political expectations regarding the development of economic interdependence between the north and the south. Following the analysis, in the final section of the report a set of policy recommendations is provided for making the GLR a more effective tool for the development of economic, social, and political linkages across the divide by fostering the cross-divide economic activity.
About the Author

Fadıl Ersözer is a Teaching Associate at the University of Manchester and completed his PhD in Politics within the same institution. His research areas are European Union, Cyprus, Europeanisation, conflict resolution, and natural resources. His current research focuses on the EU’s post-accession involvement in Cyprus and its Green Line Regulation. He has published in the Journal of Contemporary European Research, UACES – Crossroads Europe, Manchester Policy Blogs and The Guardian. He has also presented in international academic conferences such as the International Studies Association (ISA) (Atlanta, 2016; New Orleans, 2015) and the European Consortium for Political Research (Prague, 2016). He has taught European and international politics at the University of Manchester since 2014 and been the administrator of the Manchester Jean Monnet Centre of Excellence (JMCE), where he has organised numerous academic seminars and special lectures with high-profile speakers about international, European, and UK politics. He holds an MSc in International Relations of Europe from The London School of Economics and Political Science, and a BA in International Relations from the Eastern Mediterranean University and the University of Sussex.
THE GREEN LINE REGULATION AND ITS POTENTIAL FOR COOPERATION IN CYPRUS

Fadıl Ersözer

Report 9/2019
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TRNC: The Turkish Republic of Northern Cyprus (TRNC) is only recognised by the Republic of Turkey. While for Turkey and the Turkish Cypriots, Mustafa Akinci serves as President of the TRNC, the international community considers him the communal leader of the Turkish Cypriots. As the government of the Republic of Cyprus remains internationally recognised as the government of the whole of the island, the entire island is now considered to be a member of the European Union. However, the acquis communautaire is suspended in northern Cyprus pending a political settlement to the Cyprus problem (see Protocol no. 10 of the Accession Treaty).

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INTRODUCTION

Following the EU accession of the de facto divided island Cyprus in 2004, the EU attempted to facilitate and foster the economic activity across the Green Line with its Green Line Regulation (GLR).¹ Having been adopted in accordance with the legal provisions of Protocol 10, which suspends application of EU law in north Cyprus pending reunification of the island, the GLR went beyond the legal need of accommodating the de facto division under EU law and pursued political objectives. Particularly, it was expected that increased economic activity across the divide would help to develop economic and social contacts and economic interdependence between the north and south of the island. Additionally, such an approach was expected to help increase development in north Cyprus, which would help to bridge the gap between the more ‘developed’ south and ‘poorer’ north. Ultimately, if achieved, these potential outcomes would facilitate reunification of the island or at least make it less problematic. Within this perspective, the GLR’s main purpose has been to provide a workable legal basis for the movement of goods, services, and persons across the divide.

Indeed, increased economic interactions and development of economic interdependence have been the major principles of many liberal peace building and conflict resolution cases supported by the UN, NATO, the EU, and the Council of Europe, particularly since the 1990s.² It is assumed that these principles will lead to a growing interest in ‘stable’ and ‘normal’ relations between the disputed parties and can also facilitate a negotiated solution to their dispute. While the UN-sponsored peace process has been essentially limited to negotiation between the leaders and has never explicitly referred to liberal peace principles – a ‘peace through trade’ approach, the post-EU accession period of Cyprus has opened new routes for potential development of those principles as aforementioned.

In this context, this PRIO Cyprus report investigates the extent to which the EU’s GLR has contributed to the development of economic activity across the Green Line; i.e., between the Greek Cypriot and Turkish Cypriot communities in Cyprus. The particular timeframe for the

¹ The official name of the so-called Green Line Regulation is “Council Regulation (EC) No 866/2004 of 29 April 2004 on a regime under Article 2 of Protocol 10 to the Act of Accession”.
² Such as in Angola, Rwanda, Cambodia, Liberia, Bosnia, Nicaragua, El Salvador, Guatemala, Namibia, Mozambique, Kosovo as well as by the EU in Bosnia, Kosovo, and Iraq.
research focus is between 2004, the first year of the implementation of the GLR, and 2017, which is the most current period for which there are European Commission reports on its implementation at the time of writing of this report. In doing so, this report is structured into eight sections. The remainder of this section will clarify the methodology of the research. This will be followed by an overview of the liberal peace literature, which will help to explain the conceptual perspective adopted. That section will also shed light on EU post-accession involvement in Cyprus and the case study of implementation of the GLR in Cyprus. The third section will analyse and critically reflect on the design of the GLR, particularly on the extent to which it provides a workable legal framework for the economic activity across the divide in Cyprus. The fourth section presents empirical data on the degree of movement of goods, persons, and services across the divide. This is followed by investigation into how the domestic factors of legal and administrative obstacles, political obstacles, and psychological barriers to the economic activity across the divide mediate implementation and performance of the GLR. The final section of the report provides a set of policy recommendations aimed at making the GLR a more effective tool—‘emancipated’ from (the zero-sum) politics—for the development of economic, social, and political linkages across the divide.

The examination of the implementation of the GLR over the last 13 years has found that, in terms of the legal aspects (i.e., providing a workable basis), the GLR has been a significant success. This is because it contains an ingenious legal mechanism that provides a lawful basis for the movement of goods and persons between an unrecognized entity and its metropolitan state. Such economic and human linkages prior to the implementation of the GLR in 2004 were simply impossible. However, within the focus of the performance of the GLR in terms of the economic activity it has generated, the success has only been partial due to low levels of such activity. This is explained by two main factors: the design shortcomings of the GLR; and the domestic-level obstacles (legal and administrative, political and psychological) to the cross-divide economic activity, which have intervened in this process. Within this perspective, the outcomes have also remained far below the political expectations regarding the development of economic interdependence between the north and the south.

Methodology

The research for this report draws on an extensive qualitative analysis based on a wide range of secondary sources, books, journal articles, and news articles. Additionally, primary sources such as policy papers, annual reports and statistics on the implementation of the GLR, EU documents, documents from the Turkish Cypriot Chamber of Commerce, and civil society publications are used to illustrate the economic activity across the Green Line. Furthermore,
the investigation benefits from a wide range of interviews with a variety of EU, Turkish Cypriot and Greek Cypriot officials in Brussels (Belgium) and Nicosia (Cyprus) as well as Turkish Cypriot and Greek Cypriot economic operators in various parts of Cyprus (see Appendix I for the full list of interviews). The interviews were predominantly semi-structured: while a list of indicative questions guided the interviews, there was no fixed structure; instead, flexibility was shown to focus on the areas where the interviewee was more knowledgeable. Each interview session approximately lasted one hour. While the interviews with EU and Greek Cypriot officials and Greek Cypriot economic operators were conducted in English, the interviews with Turkish Cypriot officials and economic operators were conducted in Turkish. The name and exact position of the interviewees remains confidential.

Conducting interviews has added a methodological strength to this research. Firstly, this method has been helpful in providing a fuller and stronger empirical analysis, while the information gathered from other primary and secondary resources have been triangulated by the experiences of practitioners and economic operators. Secondly, interviews have clarified certain aspects regarding the development and implementation of the GLR that were not covered by any primary or secondary publications. Thirdly, this method offered us some perspective on how economic operators experience using the GLR as a basis for economic interactions across the divide, their concerns as well as fears. Although there was no methodological weakness in conducting interviews, it must be acknowledged that sometimes the information provided by the interviewees can be selective or difficult to triangulate with other forms of resources. For ethical considerations, we confirmed with each interviewee their willingness to be interviewed, voice-recorded, and quoted.
CONCEPTUAL FRAMEWORK, HISTORICAL BACKGROUND, AND THE CASE STUDY

This section provides a conceptual framework for the research through a review of the liberal peace literature, which stresses the significance of trade relations between the conflicted parties in peace building. This will be followed by a historical overview of the atypical EU enlargement case of the de facto divided Cyprus. The particular focus will be on the legal measures that the EU created in order to accommodate the Cyprus problem under EU law. Finally, the section will link the conceptual framework to the empirical context, by explaining the EU approach to the Cyprus problem in the post-accession era from a liberal perspective, i.e., related to the political significance of the economic interactions across the Green Line.

Conceptual Framework

The academic literature on liberal peace suggests that trade, economic interdependence and democracy are strong inhibitors of conflict (Russett and Oneal 2001: 126, Schrodt 2004: 292), as it is assumed that individuals act rationally in accordance with their economic interests. If citizens sell their goods, obtain raw materials, capital goods, intermediary products, or have financial investments or investors in another state, it would be hardly in the interest of that state to enter into a militarised dispute with the other because it would be equal to bombing its own property (Russett and Oneal 2001: 128). As countries become more interdependent or dependent on the international market, orient themselves around international commercial exchange and have more foreign direct investment, they become more integrated in a system of rules and regulations that limits their pursuit of militarily aggressive foreign policies (Souva and Prins 2006 186). This means each party has a stake in the economic well-being of the other, and such an environment establishes favourable conditions for cooperation promoting liberal peace. This idea can be traced back to Immanuel Kant and his work *Perpetual Peace* in the late 18th century (1795), and to other Enlightenment philosophers such as John Locke and Adam Smith, at a time when trade was seen as a remedy for war even before

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4 Acknowledging that the assumptions of liberal peace and its use in liberal peace building missions have their critics, it should be noted that this report does not aim to provide a theoretical discussion in these respects.
democracy had been established in most countries. In the words of Kant, “The spirit of commerce sooner or later takes hold of every people, and it cannot exist side by side with war” (Kant 1795, cited in Russett and Oneal 2001: 128).

As a scholar of liberal political theory, the 28th U.S President Woodrow Wilson also saw liberalisation in terms of democratisation, and marketization as a remedy for violence (Paris 2004: 7). In the post-Cold War era, liberal peace enjoyed “a nearly unrivalled ideological hegemony” due to western ideology’s pre-dominance (Hameiri 2011: 5). After the fall of the Berlin Wall and the disintegration of the Soviet Union, NATO, the Council of Europe and the EU internalised the liberal peace thesis in their policies in order to transform the newly independent countries of Eastern Europe. This approach incorporated the concepts of democracy, rule of law, human rights, free and globalised markets, and neo-liberal development (Richmond 2006: 292), which are core elements of a liberal market democracy. The aim was to stabilise newly independent, war shattered, post-civil war, and fragile states and prevent a relapse into violence by transforming them into liberal market economies (Paris 2004: 5). It was expected that democratisation would prevent conflicts in a peaceful arena of electoral politics and marketization would foster sustainable economic growth, which would also help reduce tensions (ibid: 5-6). Similarly, many UN peace building missions in other parts of the world in the 1990s embodied this idea— such as in Angola, Rwanda, Cambodia, Liberia, Bosnia, Nicaragua, El Salvador, Guatemala, Namibia, Mozambique, Kosovo; the EU promoted this idea in Bosnia, Kosovo, and Iraq (Bouris 2014: 9).

There is significant empirical research confirming the argument that market democracies rarely go to war against each other and are less prone to experience civil wars (Souva and Prins 2006, Doyle 1983, 1986; Babst 1972; Rummel 1979; Russett and Oneal 2001). Additionally, it has been shown that trade does reduce likelihood of war (Rummel 1979, Gasiorowski and Polachek 1982; Gasiorowski 1986; Polachek 1992). According to Russett and Oneal (2001: 127-129), economic interdependence creates ties to encourage accommodation rather than conflict. In their book, Triangulating Peace (ibid), they found that democracy, interdependence, and international organisations contribute to international and bi-lateral peace and decrease the likelihood of militarised conflicts. On the same side, Souva and Prins (2006) found strong empirical evidence that commercial states initiate many fewer militarised conflicts than non-commercial states because they emphasise the importance of negotiations and side-payments (Souva and Prins 2006: 185). Thus, political and economic liberalisation appears to be a promising strategy to consolidate peace in and between states (Paris 2004: 42). Expansion of Europe’s zone of peace after the Second World War can be seen as a significant example of peace through economic interdependence and cooperation. In this respect, Paris comments that promotion of economic ‘liberalisation’ for peace-building can be seen as a ‘social engineering’ project (2004: 5).

Another aspect is that liberal market democracies give rise to interest groups, which they organise to protect and enhance their economic self-interests. International trade increases the power of interest groups, which in turn pressure policy-makers to avoid militarised
disputes and break off good trade relationships that harm their economic interests (Rosecrance 1986, cited in Souva and Prins 2006: 186). Switching to a second-best trade partner could mean higher production costs, inferior quality, loss of competitiveness and lower profits. A state is highly vulnerable to disruption of trade (Keohane and Nye 1977: 8-13, cited in Russett and Oneal 2001: 130,) and such a scenario is not desirable. If trade is considered important to national prosperity and growth, leaders may even see this as an important element in national security (Russett and Oneal 2001: 130).

Within this context, the main insight of the liberal peace literature that is relevant to this research is the overarching argument that economic linkages and interdependence between conflicted parties create favourable conditions for conflict resolution. Also, when two states become interdependent, they become prone to cooperation for managing their common future. This hypothesis is similar to the logic underlying the EU approach to the Cyprus problem post Cyprus’s EU accession—an approach that aims to facilitate reunification of the island through promoting economic activity and interdependence across the divide (see the last sub-section of this section).

**Historical Background**

The EU announced the conclusion of accession negotiations with 10 candidate states including Cyprus at the Copenhagen European Council in December 2002. This decision opened the path for an atypical case of EU enlargement because the island has been de facto divided since 1974. The puzzling aspect was that the government, which had been negotiating EU membership since the 1990’s and internationally represented the whole island, had no control over the north of the Green Line. Hence, one of the two partners of the Republic of Cyprus (RoC), i.e., the Turkish Cypriot community, was not represented in the government and was completely absent from the EU accession process. On that basis, the EU had to prepare a set of arrangements that would legally accommodate the north of Cyprus in tandem with the EU membership of the de facto divided Cyprus.

The first action was the attachment of Protocol 10 to the Act of Accession on 16 April 2003. This protocol proclaimed that as of 1 May 2004, application of EU law would be suspended in the northern part of Cyprus pending a comprehensive solution to the Cyprus problem, as the RoC authorities do not exercise effective control over the north of the Green Line. At the same time, the EU aimed to address the political consideration of having a possible ‘external border,’ i.e., the Green Line, by decreeing it was rather a ‘line’ that has divided the territory of the member state since 1974. This would address the concern of the RoC on Cyprus becoming part of the EU as a whole, while also ensuring that the RoC government would not be found liable for any potential breaches of EU law in the north. For this reason, under Article

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5 The treaty concerning the establishment of the Republic of Cyprus in 1960 is based on partnership and power sharing between the Greek Cypriot and Turkish Cypriot communities.
1 of Protocol 10, the north of Cyprus is described as “those areas of the Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control”, while in Article 2 (1) the area south of the Green Line is referred as “areas in which the Government of the Republic of Cyprus exercises effective control”. Secondly, on the legal basis of Protocol 10, on 2 March 2004 the European Commission also proposed ‘the Green Line Regulation’ (GLR), whose final version was adopted on 29 April 2004, prior to the island’s EU accession. There were two main reasons for this regulation: the first legal and the second political (Interviews no.12 and no. 15). The legal reason stems from Article 2(1) of Protocol No 10, which stipulates that this decision to suspend EU law in north Cyprus made it “necessary to provide for the terms under which the relevant provisions of EU law shall apply to the line” (European Council 2003); in other words, at the interface of the areas where EU law does not apply, and the areas where it does apply. As the north was going to be outside the EU customs and fiscal territory as well as justice and home affairs, the GLR established a new legal framework to determine the rules and conditions on the movement of goods, services, and persons across the Green Line. It also intended to facilitate trade and other links between the two sides, while ensuring that EU standards in the relevant areas are maintained. Within this context, it is also very important to acknowledge that as EU law is suspended in the north (hence absence of a unilateral/ bi-lateral framework to regulate relations between the north and the south), the GLR’s mandate is only in one direction. Hence, due to the de facto territorial and political division of the island, the movement(s) from the south to the north remains under the control of the non-recognised ‘Turkish Republic of Northern Cyprus’ (the ‘TRNC’).

Apart from satisfying the legal ‘need’ of accommodating the de facto division of Cyprus into EU law, the second reason for proposing the Green Line Regulation was political. The EU did not want to completely deny Turkish Cypriots the benefits of Cyprus’s EU membership even though the north would be territorially excluded from the application of EU law. Turkish Cypriots had enjoyed trade privileges for their products from 1972 until 1994 under the Association Agreement between Cyprus and the EU. However, in 1994 Turkish Cypriots lost these privileges with the Anastasiou I (Case C-432/92) judgment of the European Court of Justice (ECJ) (European Court of Justice 1994). The ECJ prohibited use of any certificates issued by the authorities of the non-recognised ‘TRNC’ (including phytosanitary certificates—which are required for trading agricultural products). This ruling prevented entry into the EU of the best-selling Turkish Cypriot products citrus and potatoes, which required phytosanitary certificates.

This was a significant blow to the Turkish Cypriot economy and was perceived as a trade embargo imposed by the EU. The EU responded by searching for ways to substitute such certificates with documents issued by non-state entities so that Turkish Cypriots could trade within the island and with the EU. Thus, the GLR proposal took a two-fold approach on this matter: certificates of origin were to be issued by the Turkish Cypriot Chamber of Commerce (TCCoC), an institution established before the events of 1974 and recognised by the RoC;
phytosanitary certificates were to be issued by independent experts from other other EU member states appointed by the European Commission for this purpose. This approach allowed bypassing several of the obstacles imposed by the ECJ; however, it did not affect the political status of the ports in north Cyprus. While the ports in the north remained closed, in principle, the Turkish Cypriot community could trade with the rest of the EU and third countries via the ports in the south. Implementation of the GLR is the responsibility of the RoC (European Council 2005a: Article 8), while both the RoC authorities and the TCCoC have communication obligations with the Commission regarding the implementation of the GLR (European Commission 2005b: 5). Additionally, Article 8 of the GLR entrusts the authorities of the Eastern Sovereign Base Area with implementation of the GLR at the boundary between the ‘TRNC’ and the Eastern Sovereign Base Area (European Council 2005a: Article 8), while Article 5 of Protocol 3 of the 2003 Act of Accession gives the UK authorities control over persons crossing the external borders of the Sovereign Base Areas (OJ L 236).

Thus, it is clear that the 2002 Copenhagen European Council meeting and the signing of Cyprus’s EU accession agreement on 16 April 2003 laid the foundations for the development of the Cyprus problem and the history of the GLR—as these two actions determined that Cyprus was going to be an EU member regardless of the Cyprus problem—in other words, as a de facto divided country. Nevertheless, the EU had on many occasions stressed that it preferred that Cyprus accede as a united island. The UN Annan plan for a comprehensive solution to the Cyprus problem was a last try to reunify the island before the island joined the EU divided. If the plan was approved, the United Cyprus Republic (UCR) would replace the divided Republic of Cyprus (RoC) a week before the island joined the EU. However, in parallel referendums on 24 April 2004, the plan was overwhelmingly voted down (76%) by the Greek Cypriot community, while accepted by the majority of the Turkish Cypriot Community (64%).

Having secured EU membership without the need to cooperate with Turkish Cypriots made it less attractive for the Greek Cypriots to share power in a new federation. Instead, they decided to wait for more beneficial terms in the future. As a result, Cyprus became an EU member as a de facto divided country on 1 May 2004. When Greek Cypriots celebrated EU accession, the Turkish Cypriots despaired (Ersözer 2016). While in principle the whole island had become an EU member, in practice, application of the EU Law (acquis communautaire) was suspended in north Cyprus in accordance with Protocol 10.

The EU Approach to the Cyprus Problem After Cyprus’s EU Accession

Despite the fact that the prospect of EU membership failed to catalyse reunification of the island, the referendum results have significantly influenced the EU approach to the Cyprus problem in the post-accession era. Particularly, apart from satisfying the legal need to accommodate the de facto division of Cyprus into EU law, the EU broadened its approach to also include political objectives informed by the liberal peace logic (see the previous section for more on liberal peace). This approach is based on the link that the EU explicitly made between economic development of the Turkish Cypriot community and reunification of the
The main perception has been that by lifting the Turkish Cypriots’ isolation and helping their economic development the gap between the two sides would lessen and allow the north to ‘catch up’ the south. This in turn would make reunification of the island less costly, as less money would need to be transferred from the south to fund the development of the north. Additionally, it was argued that greater economic activity across the divide would encourage economic integration and interdependence of the two sides, which would also contribute favourably to the island’s reunification.

This approach is clear in the many EU statements, regulations, and missions related to north Cyprus. For example, on 26 April 2004 the EU General Affairs and External Relations Council expressed its clear determination to end the isolation of the Turkish Cypriot community:

The Turkish Cypriot community have expressed their clear desire for a future within the European Union. The Council is determined to put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community. The Council invited the Commission to bring forward comprehensive proposals to this end, with particular emphasis on the economic integration of the island and on improving contact between the two communities and with the EU. (Council of the European Union 2004)

Furthermore, a senior EU official revealed in an interview that there are striking differences between the GLR proposed on 2 March 2004 and its final version as adopted on 29 April 2004 (Interview no.12). The GLR was discussed in COREPER (Committee of Permanent Representatives) and many member states wanted to reward Turkish Cypriots for their “YES” vote by offering them a more beneficial trade regime (Interview no.12). In the initial proposal, the Commission only included wholly obtained products such as citrus fruit into the scope of the regulation. This attitude was adopted to accommodate RoC sensitivity on the legality of the use of ports in northern Cyprus. However, subsequent to the referendum results, EU member states unanimously decided include processed goods (e.g., goods that have undergone substantial processing in the north), which considerably expanded the scope of the GLR. Moreover, in the spirit of the General Affairs council conclusions, the then 15 member states also decided to permit the use of raw materials imported via the ports in the north for production of processed goods. The Green Line regulation 866/2004 was adopted on 29 April 2004, before the RoC joined the EU, under Article 2 of Protocol No 10, and entered into force as of 1 May 2004.

Following the decisions of the Council and COREPER, on 7 July, i.e., post-accession, the Commission additionally proposed a two-part measure for the Turkish Cypriot community. The first part, the Direct Trade Regulation,6 aimed to (re)grant trade privileges to Turkish Cypriot

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6 The full name of the regulation is “Commission proposal for a Council Regulation on special conditions for trade with those areas of Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control COM” (2004) 466 final of 7 July 2004.
goods shipped directly from a port in the north to the EU (European Commission 2004c). The second was the Financial Aid Regulation (European Council 2006), whereby the EU would allocate 259 million euro to support the economic and social development of the Turkish Cypriot community; improve the infrastructure in the north, build confidence and support among civil society; bring Turkish Cypriots closer to the EU; harmonise Turkish Cypriot legal and administrative structures with the EU *acquis*; and foster reconciliation. These economic, legislative, political, and social measures were proposed with the overarching goal of fostering reconciliation between the two communities and reunification of the island. These two proposals were never enacted into law, however, due to RoC objections that these measures would serve to upgrade the status of the ‘TRNC’; the ‘pseudo state’. After two years of delay, in 2006 the EU decoupled the two regulations and successfully passed the Financial Aid Regulation 389/2006, while the Direct Trade Regulation is still pending in the European Parliament— due to the same objections and concerns of the RoC as well as concerns of the Council’s legal service and the European Parliament over the correct legal basis. Turkish Cypriots perceived this as an EU failure to honour its political promises to them.

What has been described as the EU approach to the Cyprus problem in the post-accession era can also be seen in the wording of the GLR, which not only offers a ‘legal’ basis for potential economic interactions across the divide but aims to ‘facilitate’ such activity. According to the Regulation:

>This regulation is intended to facilitate trade and other links between the above-mentioned areas [the north Cyprus] and those areas in which the Government of the Republic of Cyprus exercises effective control [the RoC]. (European Council 2005a: par.5)

In the same tone, the EU makes many references to economic integration, development of the north, improving contacts across the divide, and reunification of the island. According to the Financial Aid Regulation, this regulation intends to:

facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community with particular emphasis on the economic integration of the island, on improving contacts between the two communities and with the EU, and on preparation for the (full application of) acquis communautaire (following to a solution to the Cyprus problem). (European Council 2006: Article1, 1)

Therefore, it is evident that EU involvement in Cyprus post accession and each one of its legal measures are not limited to merely the ‘legal need’ of accommodating the EU membership of a divided Cyprus into EU law, but are also framed by ‘political objectives’, with which the EU aims to facilitate conflict resolution on the island by fostering economic interdependence and integration between north and south Cyprus.

As we have indicated, the EU also claims that development of the Turkish Cypriot economy is ‘prerequisite’ for the advancement of these political objectives. Thus, to fulfil the
‘ideal’ EU goals, the Green Line Regulation would allow movement of goods, services, and persons from north to south (from outside the EU into the EU customs and fiscal territory) by providing a legal basis for economic activity across the divide. In so doing, apart from the economic interactions between the two Cypriot communities, the GLR would also provide an indirect channel (i.e., the ports in the south) for Turkish Cypriots to trade with other EU member states. However, it should be noted that the proposed Direct Trade Regulation was to be the main instrument for the north’s trade with the EU – and would have allowed direct shipment from the north to the EU. Moreover, the interlinked Financial Aid Regulation would provide financial and technical support to the north, to facilitate the economic development of the Turkish Cypriot community and its preparation for application of the EU acquis. As the Direct Trade Regulation did not pass, the EU approach to the Cyprus problem in the post-EU accession era was weakened. Nevertheless, in principle, the Green Line Regulation, enhanced by the Financial Aid Regulation, still had the capacity to ensure regular economic activity across the divide and facilitate reunification of the island.

**FIGURE 1. The Legal Measures of the EU on Cyprus**

<table>
<thead>
<tr>
<th>Name</th>
<th>Proposed</th>
<th>Approved</th>
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<tr>
<td>Protocol No. 10</td>
<td>2003</td>
<td>2003</td>
</tr>
<tr>
<td>Green Line Regulation</td>
<td>2004</td>
<td>2004 (amended six times)</td>
</tr>
<tr>
<td>Direct Trade Regulation</td>
<td>2004</td>
<td>Pending</td>
</tr>
<tr>
<td>Financial Aid Regulation</td>
<td>2004</td>
<td>2006</td>
</tr>
</tbody>
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THE DESIGN OF THE GREEN LINE REGULATION: A CAPABILITIES – EXPECTATIONS GAP

The previous section discussed EU motivations behind the Green Line Regulation and the Regulation’s significance in the de facto division of Cyprus. It was highlighted that due to the suspension of the application of EU law in the north Cyprus, the north is excluded from the EU’s customs and fiscal territory, as well as its areas of freedom, justice and security. Therefore, the north – in terms of interactions across the divide – is excluded from the freedom of movement of goods, services, persons as well as capital within the EU. To some extent, this situation has been mitigated by the GLR, which claims jurisdiction over the movement of goods, services, and persons across the Green Line and sets out special terms and rules for such activities. This section sheds light on the design of the GLR, providing a critical assessment of whether, in fact, it provides an appropriate basis for economic interactions related to the movement of goods, services, and persons from the north to the south.

Movement of Goods

The GLR stipulates a special regime for the movement of goods from the north to the south (Article 4) and defines the terms and conditions for such activity; i.e., movement from the areas in which EU law is not applied to the areas in which it is applied (European Council 2005a: par. 3). Two particular articles (4(1) and 4(9)) define the scope of the movement of goods and the range of products allowed for trade from the north to the south. Article 4(1) indicates that:

[…] goods may be introduced in the areas under the effective control of the Government of the Republic of Cyprus [the south], on condition that they are wholly obtained in the areas not under effective control of the Government of the Republic of Cyprus [the north] or have undergone their last, substantial, economically justified processing or working in an undertaking equipped for that purpose in the areas not under the effective control of the Government of the Republic of Cyprus within the meaning of Articles 23 and 24 of Council Regulation (EEC) No 2913/92. (European Council 2005a)

On this basis the GLR establishes a legal foundation for the movement of goods from the north to the south. However, it must be acknowledged that this article (4) also imposes significant limitations to the scope of goods that can be traded to goods that are either wholly
obtained (such as agricultural products) or processed. In effect, goods are limited to those domestically produced in north Cyprus.

While products (mostly raw materials) imported into north Cyprus can contribute to development of new domestic products through substantial processing, the GLR excludes trade of any imported end products across the divide, even if the product is from the customs union countries. Therefore, the terms of the GLR give rise to the oxymoron that while the same products may be imported into the north and the south separately, movement of those products across the divide is prohibited. Additionally, if a customs union product was to be traded from the south to the north, under GLR specifications it could not be reintroduced to the south. This inherently limits the movement of goods to those produced in north Cyprus, and excludes movement of goods that are imported to north Cyprus: by limiting the scope of the movement of goods, the potential volume of economic activity across the divide is also limited.

As noted earlier, a senior EU official stated that this restriction was guided by the EU intention to accommodate the RoC’s political sensitivities regarding the issue of the ‘legality’ of the ports in the north, which are outside RoC control (Interview no. 12). Such a restrictive regime, as the World Bank argues, reduces benefits to producers, service providers, and consumers both north and south of the Green Line (World Bank 2006). Furthermore, the movement of animals and animal products are prohibited with the potential of lifting this restriction in the future. Thus it is clear that, by design the GLR limits the range of movement of goods; but while these are quite significant limitations, there are also politically motivated factors that extend these limitations even further. Particularly, although processed goods can be traded under the GLR, in fact, their trade has been extremely problematic and rare.

While the scope of the movement of goods is limited to domestic products of north Cyprus, Article 4(9) further limits this scope by excluding animal and animal products:

The movement across the line of live animals and animal products which are subject to Community veterinary requirements shall be prohibited. Prohibitions in respect of specified live animals or animal products may be lifted by Commission decisions laying down the conditions applicable for trade adopted in accordance with the procedure referred to in Article 58(2) of Regulation (EC) No 178/2002 of the European Parliament and of the Council. (European Council 2005a)

We can conclude therefore that although the GLR provided a legal basis for the movement of goods across the divide, by its design the regulation carries a number of inherent limitations to the potential volume of economic activity across the divide.8

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7 As an exception, the Commission lifted prohibitions on the movement of certain animal products (fresh fish and honey) with a decision on 4 May 2007 (European Commission 2007a).

8 It is worth noting that the volume of economic exchanges across the divide was zero prior adoption of the GLR. This excludes smuggling of small quantities of goods across the divide in that period.
On the practical aspects, we noted earlier that the Green Line is not recognised as a *de jure* external border of the EU (see the previous section). Therefore, the GLR avoids terms such as ‘exports’ or ‘imports’, which could lead to the assumption that the north is a third country. Goods are merely ‘introduced’ into the government-controlled areas (the south) or ‘sent’ to the non-controlled areas (the north). In line with the ‘one country’ approach, no customs declaration is required for the movement of goods from the north to the south and no customs duties are levied (European Commission 2005a: Article 4(2)). These goods are also exempt from import VAT, provided that they are to be consumed in the south (ibid: Article 4(7)). On the other hand, once the goods enter the south from the north, they acquire the status of Community goods9 (ibid: Article 4(11)), which means Turkish Cypriot products can principally be traded to other EU countries with trade privileges as well as to third countries via the ports in the south. In such a scenario, the import VAT is due (European Commission 2004b: 3).

Article 4(3) determines that “the goods shall cross the line only at the crossing points listed in Annex I and the crossing points of Pergamos and Strovilia under the authority of the Eastern Sovereign Base Area” (European Council 2005a).10 Additionally, Article 4(5) GLR indicates that:

Goods shall be accompanied by a document issued by the Turkish Cypriot Chamber of Commerce duly authorised for that purpose by the Commission in agreement with the Government of the Republic of Cyprus, or by another body so authorised in agreement with the latter. The Turkish Cypriot Chamber of Commerce or other duly authorised body will maintain records of all such documents issued to enable the Commission to monitor the type and volume of goods crossing the line as well as their compliance with the provisions of this Article. (European Council 2005a)

On this basis, on 7 July 2004, the European Commission, in agreement with the government of the RoC, authorised the Turkish Cypriot Chamber of Commerce (TCCoC) to issue certificates of origin for Turkish Cypriot products (European Commission 2004a). Moreover, the Commission took the decision that the phytosanitary certificates (for citrus and potatoes) would be issued by independent experts appointed from EU member states, who would carry out inspections in the north (European Commission 2005d), as prescribed in Article 3 of the Regulation (EC) No 1480/ 2004 (European Commission 2004b).11 As a senior EU official also noted, these

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9 Within the meaning of Article 4(7) of Regulation (EEC) No 2913/92./
10 A full list of the crossing points can be found on page 23.
11 On 4 October 2005, following phytosanitary examinations, citrus fruits were allowed to be traded across the Green Line without being subject to customs duties or charges (European Commission 2005d: 17). Similarly, after sampling and surveys by independent phytosanitary experts, in early 2006 the European Commission permitted trade in potatoes (European Commission 2006: 7). In 2011, the European Commission lifted the obligation that “potatoes traded across the line must be grown directly from certified seed potatoes”, which allowed trade of potatoes produced from farm-saved seeds (European Commission 2012: 2).
arrangements have specifically been made to ‘overcome [some of the] the hurdles’ imposed by the ECJ’s *Anastasiou I* ruling from 1994, which made the Turkish Cypriot community unable to issue these certificates (Interview no. 12).

While the movement of goods from the north to the south is governed under the GLR, the movement in the opposite direction is subject to a regulation\(^\text{12}\) adopted on 24 August 2004 by the ‘TRNC’ under its ‘External Trade Law’ (hereafter the ‘TRNC’ regulation) (TRNC Council of Ministers: 2004). Essentially, the ‘TRNC’ regulation ‘mirrors’ the conditions and rules of the GLR under a ‘reciprocity’ principle (Interviews no.24, no.5). This is also recognised in the Commission Reports on the implementation of the GLR. For example, in relation to operational aspects, Article 4(3) of the ‘TRNC’ regulation stipulates that goods, which are to be traded from the south to the north, should be accompanied by the certificates of origin (to be issued by the Chamber of Commerce in the south) and international phytosanitary certificates (if applicable). Regarding the scope of the ‘TRNC’ regulation, similar to Article 4(9) of the GLR, Article 5 of the ‘TRNC’ regulation stipulates that the trade of live animals and animal products is subject to approval of the ‘TRNC’, and therefore it limits the movement of animal and animal products across the divide. However, it is worth noting that while the GLR does not allow the trade of such products at all, the ‘TRNC’ regulation subjects this to the approval of the ‘authorities’. Likewise, similar to Article 4(1) of the GLR, Article 4(3) of the ‘TRNC’ regulation allows trade of only wholly obtained or substantially processed goods, prohibiting trade of non-Greek Cypriot products imported from other countries. Therefore, the ‘TRNC’ regulation mirrors the GLR restrictions to the movement of goods from the south to the north, which naturally also limits development of the movement of goods on the island. Both the GLR and ‘TRNC’ regulation became operable for movement of goods as of 23 August 2004 and 28 August 2004, respectively (European Commission 2004b; TRNC Council of Ministers: 2004).

Fundamentally different to the GLR’s ‘one country approach’ the ‘TRNC’ treats the Green Line as an external border; therefore, its regulation refers to the movement of goods as external trade (imports and exports). Accordingly, Greek Cypriot products entering the north are subject to customs declaration and VAT. Last but not least, it should be noted that the Greek Cypriot economic operators are in a disadvantaged position when trading with the north because their goods are subject to double-taxation. While the RoC does not treat the movement of goods from the south to the north as exports, the ‘TRNC’ does, as it considers the Green Line an external border. As a result, Greek Cypriot products are first subject to taxation based on the VAT rate in the south, which they cannot claim back, and for a second time in the north because they are treated as imports (Interviews no.24, no.31, no.28). While an EU official stated that “this is the economic price Greek Cypriot traders pay for the one

\(^{12}\) Full name: External Trade (Regulation and Monitoring) Regulation on Export from the Turkish Republic of Northern Cyprus to Southern Cyprus and Import and/or Temporary Import from Southern Cyprus to the Turkish Republic of Northern Cyprus.
country concept, which underlines the Green Line Regulation” (Interview no.12), the double-taxation problem creates an inherent disadvantage for Greek Cypriot economic operators trading with the north, thus limiting economic activity across the divide.

**Movement of Services**

Movement of services is solely addressed by Article 7 under Title IV of the GLR (European Commission 2005a). It stipulates that:

> To the extent that services are supplied across the line to and from persons established or having their permanent address or usual residence in the areas of the Republic of Cyprus which are not under the effective control of the Government of the Republic of Cyprus, these services shall for VAT purposes be deemed to have been supplied or received by persons established or having their permanent address or usual residence in the areas of the Republic of Cyprus under the effective control of the Government of the Republic of Cyprus. (ibid)

As evident from the above extract, Article 7 is exclusively concerned with taxation and provides no scope for the movement of services, which are left undefined. This is in sharp contrast to movement of goods, which occupies three pages of the 11-page regulation, including clarifications as well as the terms and conditions related to such economic activity (European Commission 2005a: Title III). Due to the lack of clear definitions and specifications on the movement of services, there is a great deal of ambiguity. In fact, the interviewees frequently questioned what exactly constituted a service, and suggested that installation and repair, entertainment, or information technology services might qualify, although larger scale services such as telecommunications, which require an ‘organic’ link between the service providers across the divide were not considered at all (Interviews no.36, no.31, no.35).

It could perhaps be argued that a clear definition of services in the GLR is unnecessary. It is equally important to note, however, that there have been no EU-sponsored information sessions and/or training activities for Turkish Cypriot and Greek Cypriot service providers to clarify what the area refers to, nor how the potential opportunities under it could be utilised (Interview no.36). On the contrary, there were EU-sponsored sessions regarding the movement of goods under the GLR, and they were offered to both sides. The lack of such activities can be seen as another indication that the GLR was not well designed; i.e., in terms of offering substantial opportunities to be exploited. Therefore, the design shortcomings of the GLR entail inherent limitations on development of economic activity across the Green Line on the basis of movement of services.

A more explicit problem related to the narrow scope of the movement of services concerns the ‘temporary introduction of goods’ into the south. This refers to Turkish Cypriot companies taking their equipment to the south either to provide or receive repair services. The GLR initially had no provisions for such crossings, so in 2008 the European Commission
amended the GLR and allowed temporary introduction of goods from north to the south, for up to six months (European Commission 2008, amendment: 3). This is the only amendment made by the Commission to the GLR on the movement of services since the regulation was first implemented on 1 May 2004.

The second design shortcoming is that the GLR ignores legal and political complications, which largely stem from the politics of division. In view of the GLR’s aim to regulate and facilitate the movement of services in the context of the ongoing *de facto* division, this is a major shortcoming. If the GLR is to function as a mechanism for liberal peace on the island, it has to be able to provide a depoliticised legal framework for movement of services (as well as goods), where the political and legal complexities stemming from the politics of division can be bypassed. Currently, the GLR is deficient in these respects. Therefore, those political and legal complexities at the domestic level have dramatically mediated the movement of services and prevented development of any sort of cooperation across the Green Line (see the following sections on the legal and administrative, political, and psychological obstacles). As one TCCoC official put it succinctly, “we can develop projects; such as mobile interoperability, electricity interconnectivity […] however, these [their materialization] are at a political level, above us” (Interview no.35).

**Movement of Persons**

The GLR regulates the movement of persons from the north to the south of the Green Line in Cyprus on the basis of Articles 2 and 3. According to Article 2 (European Council 2005a):\(^{13}\)

1. The Republic of Cyprus shall carry out checks on all persons crossing the line with the aim to combat illegal immigration of third-country nationals and to detect and prevent any threat to public security and public policy. Such checks shall also be carried out on vehicles and objects in the possession of persons crossing the line.
2. All persons shall undergo at least one such check in order to establish their identity.
3. Third country nationals shall only be allowed to cross the line provided they:
   (a) Possess either a residence permit issued by the Republic of Cyprus or a valid travel document and, if required, a valid visa for the Republic of Cyprus, and
   (b) Do not represent a threat to public policy or public security.
4. The line shall be crossed only at crossing points authorised by the competent authorities of the Republic of Cyprus. A list of these crossing points is laid down in Annex I.
5. Checks on persons at the boundary between the Eastern Sovereign Base Area and the areas not under effective control of the Government of the Republic of Cyprus shall be carried out in accordance with Article 5(2) of Protocol 3 to the Act of Accession.

\(^{13}\) Movement of persons became subject to the jurisdiction of the GLR on 1 May 2004, one year after opening of the check points on 23 April 2003.
As it can be seen, Article 2(1) and (2) stipulates that the RoC is obliged to conduct checks on all persons to establish their identity at the crossing points. However, as stated in Article 2(3) stricter rules apply to third-country nationals. As will be discussed later in this report, this creates problems about the movement of ‘TRNC’ citizens of Turkish or other origin, and third country nationals residing in the north (such as students, immigrants, workers) as well as their children to the south. Hence, this barrier excludes a significant proportion of the population living in the north from contributing into the development of the economic activity across the divide. According to Article 2(4), the Green Line shall be crossed at the authorised crossing points only. Accordingly, two of the four crossing points available in May 2004 were listed under Annex I of the GLR, and it has been amended to include new crossing points over time as the two sides tacitly agreed to open additional crossing points. The number of crossing points increased from four (in 2003) to nine by 2018 (see Figure 2). Furthermore, according to Article 3:

Effective surveillance shall be carried out by the Republic of Cyprus all along the line, in such a way as to discourage people from circumventing checks at the crossing points referred to in Article 2(4) (European Council 2005a).

While the movement of persons from the north into the south is governed by the Green Line Regulation (GLR), the movement in the opposite direction has remained subject to the provisions of the north Cyprus. These provisions are based on decision NO E-762-2003 of the ‘TRNC Council of Ministers’, adopted on 21 April 2003 (‘TRNC’ Official Journal 2003a; see also BBC 2003; Smith 2003a). This decision opened the checkpoints for movement of persons in the pre-accession period, on 23 April 2003, and its terms continue to govern the movement of persons from the south to the north. Accordingly, Greek Cypriots, other EU citizens, and third country nationals can cross to the north by showing their ID cards to the Turkish Cypriot police.14

Within this context, there are some inherent limitations to the movement of persons and the extent to which such activity can contribute to the EU’s liberal peace project on the island. Firstly, the way that the movement of persons is practiced does not foster ‘a sense of community’ and ‘common country’ but rather reinforces the sense of ‘division’ and ‘separateness’. As such, the north treats the Green Line as an external border of the ‘TRNC’ and views the movement of persons as entering/leaving the country. Similarly, according to a high-level EU official, despite the political approach in the GLR, which treats the Green Line as an internal line within a country rather than an external border, the checks on persons as well as the obligation for effective surveillance of the Green Line are “very similar to those in use at

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14 Various restrictions regarding the movement of Greek Cypriots to the north have been gradually lifted and such crossings have been facilitated, such as by abolishing the practice requiring Greek Cypriots to fill in visa slips (see TRNC Official Journal 2003a, 2003b, 2004a, 2004b, 2015).
external borders of the EU” (Interview no.12). Secondly, the design of the GLR does not provide any measures to bypass the political and legal complexities stemming from the politics of division, which leaves this area wide open to the mediation of domestic factors limiting the extent to which the movement of persons across the divide occur. Thirdly, although effective surveillance of the Green Line for combating what is referred to as ‘illegal immigration’ is a RoC obligation, the GLR does not provide a means or a platform for the two sides to cooperate on security-related matters.

**FIGURE 2. Authorised Crossing Points on the Green Line in Cyprus**

<table>
<thead>
<tr>
<th>Crossing Point Name</th>
<th>District</th>
<th>Date of EU Authorisation</th>
<th>Date of Opening</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ledra Palace</td>
<td>Nicosia</td>
<td>1.5.2004</td>
<td>23.4.2003</td>
</tr>
<tr>
<td>Agios Dhometios/Metehan</td>
<td>Nicosia</td>
<td>1.5.2004</td>
<td>30.4.2003</td>
</tr>
<tr>
<td>Pergamos/Beyarmudu</td>
<td>Pergamos/ Beyarmudu</td>
<td>N.a. Under the authority of Sovereign Base Areas Administration</td>
<td>23.4.2003</td>
</tr>
<tr>
<td>Strovilia/Akyar</td>
<td>Famagusta</td>
<td>N.a. Under the authority of Sovereign Base Areas Administration</td>
<td>26.4.2003</td>
</tr>
<tr>
<td>Ledra Street/Lokmacı</td>
<td>Nicosia</td>
<td>18.4.2005</td>
<td>3.4.2008</td>
</tr>
<tr>
<td>Kokkina - Pachyammos</td>
<td>Kokkina</td>
<td>3.8.2005</td>
<td>Not opened</td>
</tr>
<tr>
<td>Lefka-Apliki/Lefke-Apliç</td>
<td>Lefka/Lefke</td>
<td>26.8.2015</td>
<td>12.11.2018</td>
</tr>
<tr>
<td>Deryneia/Derinya</td>
<td>Deryneia/ Derinya</td>
<td>26.8.2015</td>
<td>12.11.2018</td>
</tr>
</tbody>
</table>

Note 15 Pergamos and Strovilia crossing points are not authorised under Annex I because they allow access across the Green Line via the British Sovereign Base Area, which are external borders of the RoC. Nevertheless, according to Article 2(5), crossings from these two points are still legal and the EU cooperates with the SBA administration for application of terms and conditions of the GLR on those crossing points.

The rules pertaining to the movement of consumers are laid down under Article 6, section (1) of which stipulates that EU tax-exemption arrangements for the non-commercial importation of goods by travellers in respect of intra-community travel, and travel between member states and third countries (Council Directive 69/169/EEC; see European Council 2000) does not apply to movement of persons across the Green Line in Cyprus. Instead, it imposes a total maximum value of goods that can be transported in the personal luggage of persons crossing the line (European Council 2005a). This was determined to be €30 in 2004 (European Council 2004), later increased to €135 on 19 April 2005 (European Council 2005b), and finally to €260
on 16 June 2008 (European Council 2008b). Article 6(2), (3), and (4) stipulates that cigarettes and spirits are exempt from this amount (limited to 40 cigarettes and 1 litre of spirits for personal consumption) and these goods shall not be granted to persons under 17 years of age (European Council 2005a). Finally, Article 6(5) puts forward that the RoC can put further restrictions regarding movement of consumers up to three months after approval by the Commission, if “[…] serious disturbances in a specific sector of its economy [are] caused by the extensive use of the facilities by persons crossing the line […]” (European Council 2005a).

The GLR in this context, too, i.e., the movement of consumers, is inadequate insofar as it inherently limits the extent to which such activity can contribute to the EU’s liberal peace project on the island. According to an interviewee from the Turkish Cypriot Chamber of Commerce (TCCoC), “although the GLR provides a regulatory basis protecting the movement of consumers, it is also a restrictive basis too” (Interview no.45). Specifically, this refers to restrictions on the value of goods that can be carried across the line, as well as the option in Article 6(5) for the RoC to place further restrictions. This means if a Greek Cypriot decides to furnish their house from the stores in the north, such as for price or variety considerations, this is not possible. Similarly, there are large home furnishing stores in the south that are very popular among Turkish Cypriot consumers (such as IKEA). However, the Turkish Cypriot policy governing this area does not allow Turkish Cypriots to furnish their houses from there, without paying additional taxes to Turkish Cypriot officials at the check points, or order a home-delivery to the north (Interview no.35). Such restrictions are clearly contrary to the logic of liberal peace, which aims to facilitate reunification of the island by fostering economic integration of the two communities. Finally, a major shortcoming in the design of the GLR is that the movement of labour is not addressed. Therefore, the GLR does not explicitly facilitate movement of labour nor does it contain provisions to ensure equal treatment or protection of Turkish Cypriot social security rights.
FACTS AND FIGURES ON THE ECONOMIC ACTIVITY ACROSS THE GREEN LINE

The preceding section claims that the GLR has design shortcomings not only on operational aspects but also with regard to its scope, faults that can be expected to inherently limit the economic activity across the divide. This section will present empirical data and information on the extent to which economic activity from the north to the south under the GLR occurs. For the purposes of comparison and a more complete picture of the economic activity across the divide, this section also provides data on the such activity from the south to the north.

Movement of Goods

The GLR came into effect in August 2004, and in 2006 the value economic activity through the movement of goods increased from €471,000 to €3.2 million—an amount the European Commission referred to as ‘regrettably low’ (European Commission 2007b). In 2006, the movement in the opposite direction was recorded at €1.6 million (Figure 3). This increase continued, and in 2008 the movement of goods reached €7.17 million. This was a relatively meaningful value compared with previous years, as it represented 12% of the annual exports of the north Cyprus for that year, or €50 million (European Commission 2009: 6). On the other hand, the movement of goods in the opposite direction remained at €1.4 million. As can be seen in Figure 3, the movement of goods did not increase further or continue at the same levels, but in fact, gradually decreased in 2009 and 2010.
In 2011, an unusual increase in the movement of goods from the north to the south can be observed, when such value increased from €5.9 million in 2010 to €29.4 million, an approximately 560% increase and the peak value of such activity (European Commission 2012: 11). However, this occurred because of an exceptional one-off sale of electricity in 2011 and 2012 from the north to the south after the main power plant in the south became inoperable because of a huge explosion (see Kıbrıs Gazetesi 2011). Figure 4 indicates that if the electricity sale is excluded, the actual value of movement of goods from the north to the south dramatically fell from €29.4m to €5.3m in 2011 and from €8.9 million to €4.19 million in 2012. This reveals that the gradual decrease in the value of movement of goods from the north to the south, which began in 2009, did not end in 2011 but continued for six years until 2014. Accordingly, it is clear from Figure 4 that the total value of the movement of goods across the Green Line has seen a gradual decrease from 2009 to 2014, excepting a slight increase in 2011 caused by the movement of goods from the south to the north. Regarding the low level of movement from the south to the north in general, while the domestic factors stemming from the politics of division can to a certain degree be an explanation, it should be acknowledged that the population of the north is approximately one-third that of the south (roughly 300,000 to 900,000, respectively). Therefore, a lower level of trade from the south to the north can be expected.
The gradual decrease in the movement of goods from the north to the south between 2009 and 2011 has been explained by the European Commission as a steep decrease in potato trade (14% of the trade in 2009, 4% in 2010, less than 1% in 2011), while previously its place in the movement of goods was significant (30% of the trade between 2007 and 2008) (European Commission 2008, 2009, 2010, 2011). Between 2011 and 2013, the European Commission associated the decrease in the movement of goods from the north to the south with the effects of the global economic crisis, and particularly its serious effects on the Greek Cypriot economy (European Commission 2011 and 2013), which led the RoC to the traumatic experience of ‘bailout austerity’ between 2013 and 2016 (see Higgins 2013; Smith 2013; The Economist 2013). In more detail, the economic recession slowed down the construction sector and led to the closure of restaurants in the south; at this time too there was also a significant decrease in the trading of scrap copper, building materials, and fresh fish from north to south (European Commission 2012, 2013). Finally, between 2015 and 2017, the total value of the movement of goods slightly increased. This increase was explained as the ‘stabilisation of the economic crisis’ in the south by the European Commission (European Commission 2015a), while the movement of goods from the south to the north only slightly increased.

Specifically, factors such as bad weather conditions, shortage of certified seed potatoes for the second crops in the north, and self-sufficiency in potato agriculture in the south have been reported (European Commission 2010, 2012). It was also reported that trade in potatoes was at insignificant levels in 2015 (European Commission 2017).
Regarding types of products, the movement of goods from the north to the south has heavily relied on the trade of plastic products, building materials/articles of stone, raw scrap material, aluminium/PVC products, wooden products/furniture, vegetables (mainly potatoes), fruit (mainly citrus), and fresh fish (European Commission 2010, 2012, 2016). On the other hand, although the GLR permits trade of processed food, such trade only occurred once (bakery products) (Interview no.29). In regard to the movement of goods in the opposite direction; the main goods have been fish (live), spirits and alcoholic drinks, building and construction materials, and liquefied petroleum gas (‘TRNC’ MEE 2010, 2012, 2016).

Finally, another particular aspect that should be acknowledged is that the GLR also (indirectly) affords the Turkish Cypriot community trade privileges with other EU member states. A number of instances of this kind of trade were reported between 2005 and 2011. For example, in December 2005, a consignment of Cyprus delights (confectionery, 1,112 kg for a value of 1,112 CYP) was traded to the United Kingdom and India (European Commission 2006). Similarly, in April and May 2007, a small amount of aluminium and copper scrap crossed the Line and was shipped to the United Kingdom (European Commission 2007b, 2008). Such trade formed 4% of the movement of goods from the north to the south in 2010, and 0.34% of trade in 2011 (European Commission 2011, 2012). Lastly, it is suspected that large consignments of potatoes, which crossed to the south for intra-island consumption in 2007 and 2008, were repacked and traded to other EU countries (European Commission 2008: 6, 2009: 7). No further examples of such external trade via movement of goods have been recorded. Therefore, the movement of goods in Cyprus has been overwhelmingly intra-island trade.

In sum, it appears that the movement of goods across the Green Line has overall remained very low (in both directions)—a fact that was also acknowledged by the UN Secretary General in 2015 (UN Security Council 2015: 8; also see European Commission 2015a: 8). Thirteen years following implementation of the GLR (and the ‘TRNC’ regulation), there is no concrete evidence of economic interdependence and integration between the Greek Cypriot and Turkish Cypriot communities in Cyprus. The following section will investigate the Green Line economic activity in terms of the movement of services.

Movement of Services
This section examines the success of the inter-community movement of services by looking at utilities (here refers to: sewerage, water, electricity, telecommunications), transportation (haulage and passenger), tourism and other small-scale services (refers to services provided by companies or individuals). The movement of services under the GLR is not monitored and there is no unified body of economic data on it. While this is a major challenge for the analysis in this section, it is still possible to make a general assessment by investigating the cooperation in the areas of the service sector. Therefore, in light of the absence of ‘hard data’, this section provides empirical information drawn from newspaper articles and interviews, which shows the types of services that can cross the Green Line and to what extent, but also those types that cannot cross at all.
Regarding utilities, there is a limited level of cooperation between the north and the south. The two sides cooperated in the area of electricity in 2011 and 2012 when the south experienced a serious power shortage in 2011. This was due to an explosion in the Evangelos Florakis Naval Base, which seriously damaged the adjacent Vasiliko power plant, leading the south to purchase some of its electricity from the north. While it should be noted that this was a one-off economic activity due to the exceptional nature of the situation, it also indicates that the GLR has been used as a basis to conduct this type of economic activity.\textsuperscript{16} Furthermore, the two sides agreed in 2015 to merge their electricity grids as one of a list of agreed confidence-building measures (CBM) between the Greek Cypriot leader Nicos Anastasiades and the Turkish Cypriot leader Mustafa Akinci (In-Cyprus 2016). This measure intended to address problems related to electricity shortages and phase instability, which both sides frequently experienced due to their small electricity network (Interview with no.41).

The electricity inter-connection was accelerated after the north experienced problems with its power plant (Famagusta Gazette 2016). On 1 January 2016, the Cyprus Electricity Authority and the Cyprus Turkish Electricity Authority announced inter-connection of the two sides’ grids from two connection points (Cyprus Puzzle 2016). The connection is not actively used to trade electricity, but it keeps the electricity phases of the two sides synchronised for phase stability and also functions as a back-up infrastructure for other potential future emergency situations (Interview no.41). Therefore, there is some level of economic activity in the area of electricity services across the divide, though this is largely for emergency situations.

In the area of telecommunications, the biggest obstacle is the lack of island-wide mobile telephone network coverage. The mobile phone operators can neither directly provide their services across the divide nor indirectly through trading services with the operators across the divide. Currently, when people cross the Green Line from either side, their mobile phones lose network reception—making phone calls impossible (see Andreou 2015; interview no.23). It is also important to note that north Cyprus does not have a country calling code or international postal address due to its non-recognition by the International Telecommunication Union and the Universal Postal Union. International calls are routed via Turkey’s dialling code (+90) followed by an allocated province code (392), where all mail is addressed ‘via Mersin 10, Turkey’, as if north Cyprus is a province of Turkey. Additionally, as the south uses the country calling code that has been allocated to Cyprus (+357), calls between the north and the south go through Turkey and take place as international calls.

To resolve the mobile telephone interoperability issue, there were discussions between the Greek Cypriot and Turkish Cypriot Chambers of Commerce in 2013 and 2014; however,\textsuperscript{16} While electricity supply is a service, it was sold under ‘movement of goods’ and reflected in the records of the Chambers and the European Commission as such.
these talks were unsuccessful (Menteş 2014; interview no.23). Mobile interoperability, under the area of telecommunications, is also one of the CBMs agreed by Anastasiades and Akıncı. Although this project, together with electricity inter-connectivity, were framed as CBMs, the then president of the TCCoC, Fikri Toros, said “once done, they will be also great examples of trading of services in Cyprus” (Interview no.23). Ahead of the two Chambers of Commerce on the island, the two sides’ mobile phone operators came together and ironed out technical aspects (such as the locations of radio towers, tariffs and so on) for a framework agreement (see Papageorgiou 2015). Although the head of the Greek Cypriot Chamber of Commerce Fidias Pilides confirmed in mid-2015 that the technical aspects were resolved and the project was in the final stage, it kept being postponed (Anastasiou 2015, Andreou 2015, Halkın Sesi 2015, Üzgün 2016). Eventually, the project was “put on ice”, in the words of Michalis Ahilleos, the chief-executive of the telecommunications authority of the south (Sonay 2016; Üzgün 2016), such that it could not progress.\footnote{17 Cyprus Telecommunications Authority (CYTA).} Currently, mobile phone services cannot be traded at the time of writing of this report.

In the area of transport (haulage and passenger), cars (including rented cars) and minibuses from either side can cross the Green Line.\footnote{18 For vehicle crossings, drivers from both sides have to periodically purchase vehicle insurance at the crossing points from the respective insurance companies, which will cover their vehicles across the divide. There has been some involvement from the two Chambers of Commerce to develop cooperation between the two sides’ vehicle insurance companies to end this requirement, although the project has not been developed (Interview no.23).} Turkish Cypriot commercial vehicles (such as buses, lorries, taxis), however, are not admitted into the south because the professional driving licences and roadworthiness certificates for commercial vehicles issued by the authorities in the north are not recognised by the authorities in the south (see European Commission 2008). The Greek Cypriot authorities raise concerns over road safety and oblige Turkish Cypriots to obtain ‘acquis compliant’ licences from the authorities in the south for such crossings (European Commission 2006, 2010, 2016). However, this method has been used by Turkish Cypriot drivers and companies only exceptionally, as it doubles bureaucracy and costs (Interview no.24). On the other hand, even if these licences are obtained, Turkish Cypriot commercial vehicles are not allowed to operate commercially in the south. For example, busses, lorries and taxis cannot provide services in the south that serve Greek Cypriots; they can only complete services that they started in the north, such as shipping goods from the north to the south (Interview no.42). On the other hand, there are no such restrictions on Greek Cypriot commercial vehicles. There are also no routine public or private local transportation services across the Green Line, even in the divided capital Nicosia. Therefore, there is no cooperation in the transportation services.

Tourism is an important sector in the economy of both sides and cooperation between the two sides would be mutually beneficial, although perhaps more so for the Turkish Cypriot tourism sector which could utilise the airports in the south that enjoy cheaper and direct flight
connections that attract tourists. It has been estimated that approximately 10% of tourists (200,000 to 281,000 people) entering through Larnaca Airport each year between 2004 and 2009 visited the north (UNDP 2011: 11-12). As a Turkish Cypriot official claimed however:

> Just like the Turkish Cypriots use the airports in the south, some non-Cypriot tourists also use those ports for their direct and cheaper airline connections when visiting and staying in the north. We do not have statistics on this number; however, the majority of our tourists come from the ports in the north. (Interview no.39)

While this indicates some level of economic activity, this is more related to the movement of consumers (economic activity occurring by movement of persons); no direct cooperation between travel agencies, tourism and hotel unions has been identified. Furthermore, the aforementioned problems regarding the prohibition of Turkish Cypriot commercial vehicles into the south is another huge obstacle, as this prevents the Turkish Cypriot tourism sector from benefitting from tourist arrivals at the airports in the south. This is mainly because Turkish Cypriot carriers cannot organize shuttles (both routine and seasonal) between the towns in the north and airports in the south (Interview no.42). In addition, while Greek Cypriot busses are free to cross to the north while carrying passengers, Turkish Cypriot busses are only allowed to carry Turkish Cypriot passengers to the south if they have the appropriate licences (Interview no.40). Similarly, the Greek Cypriot tourism agencies offer day trips to the north for tourists staying in the south, while the Turkish Cypriot companies are unable to do so for the same reason noted above. On this basis, we can state that there is no no significant level of economic activity occurring by movement of tourism services across the divide.

Finally, with regard to small-scale services, there are some Turkish Cypriots who are registered to work and provide services in the south.\(^{19}\) Although there is no hard data, such economic activity in this area can be partially contextualised on the basis of the number of letters issued by the TCCoC to Turkish Cypriot companies for temporary introduction of their equipment into the south. Turkish Cypriot companies that wish to take their equipment to the south either to provide or receive services there are required to have this documentation. According to the TCCoC, there were four such letters in 2014, none in 2015, and two in 2016 (Interview no.38), which is negligible for the analysis. It is important to underline too that these letters were issued for Turkish Cypriot companies that intended to use repair and maintenance services in the south rather than for the companies to provide services in the south (ibid). Although 73 cases of temporary introduction of goods were recorded between 1 November 2008 and 30 April 2009, none were for provision of Turkish Cypriot services in the

\(^{19}\) It is worth highlighting that the concern here is small-scale services provided by Turkish Cypriots whose companies are located in north Cyprus and who provide their services in the south. The Turkish Cypriots who work in the south are discussed under the movement of persons.
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south (European Commission 2009). On the other hand, regarding the services for which documentation for temporary introduction of goods (big equipment) is not required (in the case of electricians for example), the professional licences issued by Turkish Cypriot side are not recognised in the south. Therefore, such restriction also marks a major limitation to the extent to which small-scale services operate. The statement of a TCCoC official is also helpful in further contextualising this issue:

Some movement in [in small-scale] services is taking place… However, these are not frequent and we couldn’t know this [for sure] because such services are not recorded. We know of one example where a Turkish Cypriot company set up sound equipment for some concerts in the south. (Interview no.35)

There also might be some level of economic activity through movement of non-registered small-scale services. However, there is no paper evidence of this activity, and we believe it is unlikely or at most exceptional. We also note that there is no evidence of movement of small-scale services occurring in the direction from the south to the north. Therefore, trading in small-scale services is very limited and largely seasonal. Based on the information provided in this section, it is reasonable to argue that movement of small-scale services is exceptionally low and very limited.

The economies of both the south and the north are service based, which signals fertile ground for economic cooperation in the area of movement of services, more than the movement of goods. However, this section has shown that no significant level of economic activity takes place across the Green Line.

Movement of Persons

As stated earlier, movement of persons began on 23 April 2003, one year before Cyprus joined the EU. The surprise opening of the Green Line initially caused exceptional excitement as well as a sense of urgency among Cypriots, who wished to seize the opportunity to visit their homes, villages/towns, as well as their neighbours from the other community before any possible overturn of the decision to open the checkpoints. Crowds of people rushed towards the crossing points, forming kilometre-long queues and waiting 8 to 10 hours to cross the Green Line. The media called it a ‘stampede’ (Halkın Sesi 2003a; Kirbaki 2003a), as, reportedly, approximately 800,000, or one-quarter of the island’s population, crossed the Green Line in only two weeks (Ker-Lindsay 2005; see also Halkın Sesi 2003a, 2003b; Kirbaki 2003b). In this first year of the crossings, a total of 2,538,986 crossings were recorded (1,123,720

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20 “27 cases concerned goods to be repaired, 14 cases concerned goods to be exhibited and one case concerned professional equipment. A further 31 cases concerned means of transport (registered in other countries) of persons who had entered the government-controlled areas [the south] via a port in the northern part of Cyprus and who stated an intention to stay in the government-controlled areas [south] for less than six months” (European Commission 2009).
by Greek Cypriots, 1,371,099 by Turkish Cypriots, and 44,167 by others) (UNDP 2011: 11). In 2004, the first year of Cyprus's EU accession, the figures increased and peaked at 3,659,762 (1,173,825 by Greek Cypriots, 2,159,54 by Turkish Cypriots, 256,400 by tourists visiting the north, and 69,996 by others) (UNDP 2011: 11).²¹

**FIGURE 5. Movement of Persons across the Green Line in Cyprus**

![Graph showing movement of persons across the Green Line](image)

**Note 2** This chart is created based on the number of crossings by persons as provided in the EC Green Line Regulation annual reports, which cover the period between May 2004 and December 2017. While the EC reporting period aligns with the calendar year (1 January–31 December) for 2011 and after, the reporting for the earlier years started on 1 May of a given year until 30 April of the following year. Those years are represented with the year of the start date of a reporting period in the table. For example, the year 2005 in the table represents the reporting period 1 May 2005 to 30 April 2006.

Although the movement of persons reached a peak within the first two years (2003 and 2004), based on the data provided by the European Commission, the numbers from May 2005-May 2008 (see figure 5) revealed a three-year decline (and four if the 2004 UNDP figures are

²¹ Although the figures on movement of persons have been reported annually by the EC (annual reports on implementation of the GLR), the first reporting period between 1 May 2004 and 30 April 2005 is an exception. Therefore, the data is retrieved from the report of the UNDP interdependence project in Cyprus. Additionally, it should be noted that the EC reports do not include data on the movement of persons occurring at the Pergamos and Strovilia crossing points, as both are under the authority of the SBA Administration but not of the RoC (European Commission 2009). Additionally, official figures on the movement of persons in Cyprus in these reports, which are used in this section, are gathered from the RoC authorities. Nevertheless, as of 2011 (European Commission 2012), the EC reports also provide figures on movement of persons gathered from the Turkish Cypriot community. These figures are broadly in line with the figures provided by the RoC authorities.
included). Although the total number of crossings suddenly show a ‘jump’ between 2008 and 2009 (2,756,533), this is not because of an increase in the number of crossings by the two communities but due to inclusion beginning in 2008 of the crossings by others (non-Cypriot EU members and third country nationals) in the EC annual GLR reports. In fact, despite a slight increase in the figures for crossings for both communities between 2007 and 2008, the gradual decline continued in subsequent years. A similar explanation could be made for 2010, which in Figure 5 suggests a sharp decrease in all crossings. This is because the GLR report for that year covered a shorter period of time (eight months rather than 12) as the EC decided to align the reporting periods with the calendar year starting with 1 January 2011. Whereas previously GLR annual reports covered time periods starting with 1 May of a given year (accession date of Cyprus into the EU) until 30 April of the following year, the report of 2010 covered 1 May 2010 to 31 December 2010. Nevertheless, even if this exception is ignored, the figures for 2009 and 2011 still indicate an overall gradual decrease in all figures. Finally, despite some slight fluctuations in the figures between 2011 and 2017, the number of annual crossings stabilised to a total of 2,148,591: specifically, 989,648 by Turkish Cypriots, 572,570 by Greek Cypriots, and 587,801 by others.

Overall, a gradual decrease was evident in the level of movement of persons among the two Cypriot communities between 2003 and 2017, with the most recent figures less than half those of the initial years (especially 2004 and 2005) of the crossings. High number of crossings in the early years was due to Cypriots’ intense longing for their homes, properties, neighbours, religious sites, villages and towns that they had left behind during the division and their forced displacement in 1974 (UNDP 2011; Halkın Sesi 2003b; interview no.44). Similarly, curiosity was also an important factor, especially for many Turkish Cypriots, who considered north Cyprus an ‘open air prison’ due to their international isolation, and wanted to ‘catch a glimpse of’ the ‘other side’ after three decades of division (Smith 2003b; interview no.44). However, longing and curiosity are not sufficiently constant factors to sustain high levels of movement of persons, and do not necessarily require social contacts between the two communities. According to an interviewee, although there are examples of Greek and Turkish Cypriots crossing the Green Line to meet each other, such inter-communal social contacts are exceptional, which means Cypriots “do not have a reason to cross over” other than for touristic, consumer, personal or religious reasons (Interview no.45). Moreover, the current yearly figures represent only a marginal proportion of the overall population of the island (approximately 1.5 million combined) and are in fact not very high levels.

It should also be acknowledged that there is a clear asymmetry in the number of crossings between the two communities. The level of movement of persons is approximately two times more frequent among the Turkish Cypriot community than the Greek Cypriot community, which can be observed not only in the last few years but also throughout all the years for which there is available data. This is particularly interesting, especially when we consider that the Turkish Cypriots make up the smaller community, with a population approximately one-third that of the Greek Cypriots. While this trend can be partially explained by the perception
of many Greek Cypriots and also the state that crossing to the north is ‘inappropriate’, there are also reasons for Turkish Cypriots to cross over related to movement of labour and especially consumers that do not apply to Greek Cypriots. Overall, therefore, it seems that the opening of the Green Line for movement of persons did not lead to a great level of social (re)integration of the Turkish Cypriot and Greek Cypriot communities.

With regard to the movement of labour— unlike the movement of persons— there is neither clear nor adequate data to analyse. Nonetheless, sufficient material has been drawn from various sources so that we can contextualise such movement. First, it has been estimated that approximately 8,800 Turkish Cypriots were employed in the south in late September 2003 (Kirbaki 2003a), a number that reportedly reached 10,000 by mid-2004 (Kibris 2004a). In early 2005, it was reported that Turkish Cypriot workers in the south contributed $180 million to the Turkish Cypriot economy (Kibris 2004c). Predominantly male Turkish Cypriots were employed in the construction sector in the south, although a small number of female workers were also employed in the south’s hotel, manufacturing, and commerce industries (UNDP 2011: 13; Yeni Düzen 2003b; interview no.47).

A joint UNDP and USAID report found that Turkish Cypriot employment figures in the south totalled around 2,800 in 2008, falling to 2,460 in 2009 (UNDP 2011: 11). Nonetheless, the report also acknowledges that this number was undeniably much higher, as it also found that at least 22% of Turkish Cypriot workers in the south were not registered (ibid). According to an official from the PEO (Pancyprian Federation of Labour), the number of Turkish Cypriots employed in the south dramatically decreased to fewer than 800 by 2012 (Interview no.47). This is primarily a result of the Greek Cypriot economic and banking crisis (see Higgins 2013; Smith 2013; The Economist 2013) that dramatically hit the construction sector, which in fact predominantly employed Turkish Cypriots (Interview no.47). A survey by the ‘TRNC’ State Planning Organization revealed that 488 people from the active population in the north (0.4%) had been working in the south in 2016 (TRNC SPO 2016: 2). It should be noted that this number might be slightly higher, because those who work in the south are not required to inform the authorities in the north of their current work status (Interview no.45). Thus, movement of Turkish Cypriot labour in Cyprus is currently minimal. On the other hand, anecdotal evidence suggests that there is no identifiable movement of Greek Cypriot labour from the south to the north, with the exception of one or two examples (Interviews no.4, no.44).

Regarding the movement of consumers, the data is also lacking. However, there is sufficient material to contextualise the extent to which such movement occurs. Cypriots (both communities) cross the Green Line for shopping, touristic visits to sites, holidaymaking in hotels, and using restaurants (UNDP 2011: 10). More specifically, Greek Cypriot consumers tend to spend money in the north on counterfeit goods, casinos, touristic places, textiles (wool and curtains), hotels and restaurants (LAÜ and DAÜ 2013: 10), while Turkish Cypriots tend to spend money in the south for clothing (especially international brands, which are not available in the north), higher health standards in meat and dairy products, cheaper prices for electric products and replacement parts, and quality of service offered by official manufacturers of motor vehicles (ibid: 9).
On this basis, it was reported that Greek Cypriots, who found certain products less expensive in the north, e.g., clothing, cigarettes, spirits, electronic products, fish and petrol, spent approximately $2.5 million in the north during the first week of crossings in April 2003 (Kirbaki 2003a, 2003c). Additionally, more than 300 Greek Cypriots were accommodated in hotels in the north during that time period (Halkin Sesi 2003b) and this trend continued in similar numbers in early June 2003 (Radikal 2003). By mid-2004, it was reported that 75% of gamblers in the casinos of the north were Greek Cypriots (Milliyet 2004). Moreover, it has been estimated that an interdependence expenditure accounting for €226 million benefitted both communities in 2009, of which 75% occurred through the movement of consumers across the Green Line (UNDP 2011: 10). Comparatively, movement of goods accounted for only €7 million (2%) of the total expenditure (ibid). Furthermore, between May 2009 and April 2010, consumers from both communities spent around €43 million in the wholesale and retail sectors of the other community (European Commission 2010: 6). On the other hand, movement of goods between those dates accounted for only €6 million. Therefore, despite the fact that the number of crossings was not very high, there was significant movement of consumers on both sides of the divide. It has also been acknowledged by the European Commission that in 2011 and 2012 the economic activity sparked by the movement of consumers was several times higher than that of movement of goods (European Commission 2011, 2012). One of our interviewees also noted that people tend not to obey the rules on value restrictions (movement of consumers) as stipulated in the GLR (and in the policy of the north); therefore, although this is difficult to estimate, it is likely that there is a very high level of ‘smuggling’ of goods across the Green Line exceeding the allowed amounts (Interview no.7).

Moreover, it has been reported that Turkish Cypriots spent €60,305,455 in the south in the first half of 2012 (January–June), while Greek Cypriots spent €11,439,648 in the north (LAÜ and DAÜ: 9). It was also reported that Turkish Cypriots spent an average €89 per person per visit to the south, whereas for Greek Cypriots this amount was €36 per visit per person (ibid). These numbers were earlier reported as €70 for Turkish Cypriots and €50 for Greek Cypriots in 2009 (UNDP 2011: 11-12). Nevertheless, according to an interviewee, the actual figures might be higher because these estimations are made based on credit card transactions alone and do not include cash transactions, which are difficult to track (Interview no.44). Additionally, according to an interviewee, Greek Cypriots tend to use cash rather than credit cards in order to keep their expenditure ‘hidden’ from the authorities in the south (ibid).

Thus our data on the movement of persons has shown mixed results re the success of the GLR. Although the level of crossings has not been very high, the economic activity resulting from the movement of persons across the Green Line in Cyprus is at a significant level and many times higher than the movement of goods. We would assume that consumer activity across the Green Line would have been higher had there not been restrictions on the total value of goods legally allowed across the divide. On the other hand, it must be acknowledged
that although the economic activity due to the movement of persons is significant, the opening of the Green Line for crossings did not lead to significant (re)integration of the Turkish Cypriot and Greek Cypriot communities or a significant level of movement of labour. Most people who cross the Green Line are interested in touristic trips and consumer-related activities rather than a more meaningful social interaction with the other community. Therefore, the two sides still remain fundamentally separate from each other in almost every aspect of life.
LEGAL AND ADMINISTRATIVE OBSTACLES TO THE ECONOMIC ACTIVITY ACROSS THE GREEN LINE

As it will be shown in the next section, there is a negative political climate surrounding the economic activity across the Green Line due to the ongoing politics of division on the island and incompatible political beliefs regarding the future implications of such activity on the Cyprus problem. Stemming from this political context, there are significant legal and administrative obstacles to economic activity across the divide, which prevent development of the cross-divide economic activity as a linkage between the north and the south. The RoC deems all institutions, authorities, and decisions related to the ‘TRNC’ illegal, the Turkish Cypriot companies and authorities responsible for utility services are not recognised in the south. This creates significant problems for all types of economic activity across the divide. Regarding the movement of goods, there are numerous obstacles that prevent development of a ‘reliable’ trade environment for the economic operators across the divide; these include dispute resolution, payment, and red tape. Regarding the movement of services, the problem is even greater; the absence of a legal framework to enable economic interaction between service providers and non-recognition of the authorities in the north make the movement of services almost completely impossible except for small-scale services, which are usually undertaken as movement of persons. Finally, the non-recognition of the ports in the north excludes a large population in the north from the movement of persons. This creates a huge loss to the economic activity that potentially could be created by the movement of those persons to the south as consumers.

**Movement of Goods**

We noted earlier that the range of products allowed for trade across the Green Line is inherently limited by the design of the GLR. This limited scope is further crippled by the incomplete implementation of the GLR in practice—specifically, although trade in processed food and food contact materials is not prohibited under the GLR, absence of an explicit clause in this regard left an open door for the RoC to decide to make such trade categorically impossible. This is mainly due to changes in RoC policy—i.e., trading processed food was prohibited in 2011 and trade of food contact materials (notably plastics and carton) was...
banned in 2015. The stated reason of the RoC government is that it cannot be certain that these products comply with the EU acquis in terms of production, particularly health, hygiene rules, and product safety\(^{22}\) (European Commission 2011: 7, 2013: 7, 2016:7, 2017: 6; interviews no.16 and no.31).

It must be noted that the RoC’s unilateral policy change on trade of these products caused significant economic harm to some economic operators in the north. The following excerpt from an interview with a plastics producer in the north helps to contextualise this point:

> We increased our production capacity by 25 to 30% to meet the demand [from the south] for our plastic products such as plastic containers, bottles for olive oil and detergents, and bottle caps. However, after 2015, this trade was stopped by the Greek Cypriot authorities […] despite the fact that we provided test results from a laboratory in the south showing that our products were safe for contact with food […] In the end, we had to take a financial loss, as we have not been able to sell the products as were planned (Interview no.25).

Similarly, a carton producing factory in the north revealed that they had previously sold carton packaging for pizza to the south; however, after the RoC policy change in 2015, they suffered a loss of approximately €12k (Interview no.26). We also note that although there was never much trade of processed food, the categorical ban of these products prevents any potential development of their trade.

Upon receiving many complaints on this issue (European Commission 2016: 7, 2017: 6), the European Commission attempted several times to resolve the matter by putting a mechanism in place to address the health and hygiene considerations; nevertheless, there is still not a solution at the time of writing (European Commission 2014: 8, 2015a: 8). The European Commission has maintained the consistent position that the trade of these products should not be prevented:

> The Commission had informed the authorities of the Republic of Cyprus that there are no grounds under the Green Line Regulation to carry out checks other than those provided for in that Regulation, in particular to carry out checks of premises in the [north Cyprus] to assess if production takes place in line with Union rules. While they could take samples of the products for further analysis, they should not prevent all processed food products from crossing. (European Commission 2014: 8, see also 2013: 7, 2016: 7, 2017: 6)

Despite the repeated statements of the European Commission on the issue, the RoC has not changed its position. Therefore, although the GLR is EU law and should supersede RoC decisions, the latter seems to interpret the GLR in a more ad hoc fashion, thus limiting the

\(^{22}\) It is worth highlighting here that the EU practice of sending experts from other EU countries to issue phytosanitary certificates in the north does not apply to processed goods and processed food products.
range of products that can be traded across the Green Line. Within this context, Turkish Cypriots can only sell raw, basic, or scrap materials, and not value-added goods, through the GLR. This means that while the product range that can be traded across the Green Line is already limited by the design of the GLR, even the established range cannot be exploited to its full potential due to the RoC’s application of the EU *acquis* as legal grounds, leading to incomplete application of the GLR. This limits the development of the cross-divide economic activity as a linkage between the north and the south in Cyprus.

Secondly, the current trading environment under the GLR is neither ‘reliable’ nor ‘friendly’ from the business requirements perspective. There are problems related to protection of the companies involved in the Green Line trade and payment, but the GLR provides no commercial dispute resolution mechanism for such cases. While Turkish Cypriot companies can technically rely on the Greek Cypriot judicial system for dispute resolution, this is highly problematic because Turkish Cypriot companies are not recognised in the south. This precludes legal action between Turkish Cypriot and Greek Cypriot companies; instead, the proceedings must be instituted in the name of individuals (Interviews no.1, no.2, no.21; see also European Commission 2010: 7). Recognition of the paperwork (such as contracts) is also problematic (Interview no.50). The absence of any known cases before the Greek Cypriot judicial system (ibid) could suggest that the current trading environment under the GLR is neither ‘reliable’ for economic exchange nor especially business ‘friendly’ (Interviews no.1, no.2, no.50).

Furthermore, as the banks in the north are not recognised by the south, money transfers across the divide are not possible (Interview no.2). However, according to a TCCoC official, such north-south transfers are technically possible, between banks in the south and branches of Turkish banks in the north, but the process is very slow and costly as any transaction travels internationally (Interview no. 49). Trade must therefore be negotiated in cash terms or Turkish Cypriot traders must cross the divide to use a bank in the south—creating further obstacles to economic activity. Apart from making the exchange cumbersome, this situation further weakens possibilities of legal protection for the entrepreneurs in the case of non-payment, as these economic activities are trust based. The following extract from an interview with a Turkish Cypriot business is particularly relevant in capturing problems related to dispute resolution and money transfers:

> I cannot do business with contracts [with the south] to protect my rights […] we did this trade with cash payments. However, on some occasions we were never paid. It would be very tiring and costly to try to sue them in the courts of the south. So, we gave up. (Interview no.26)

A 2012 questionnaire sponsored by the Cyprus Turkish Chamber of Industry (CTCI) found that 3.6% of Turkish Cypriot companies involved in Green Line trade have experienced difficulties related to payment (Interview no.7). Although this number does not seem very high, it is in fact a risk factor, irrespective of the frequency of non-payments: the very understanding that
money loss is irreversible in this case and that there is no legal protection makes the cross-divide economic activity ‘unreliable’ in the eyes of private companies for development of economic exchanges on a larger scale.

Thirdly, the Green Line trade is not perceived as a ‘safe’ and/or ‘sustainable’ opportunity by Turkish Cypriot producers (Interview no.6). For example, although the RoC effected a policy change on processed food in 2011, interviewees highlighted that the Greek Cypriot authorities have been making such trade difficult through a very slow administrative process, holding all the food for safety tests, and asking the producers if they would continue to do such trade before that change (Interview no.21, no.29). For example, a bakery in the north that sold their products to the south in the early years of the GLR reported (in an interview, no.29) serious obstacles to trade, such as very slow laboratory tests, i.e., all of their products were held in the buffer zone awaiting test results. As a result of this ‘slow process,’ in 2012, a consignment of potatoes that had received the required phytosanitary certificates was kept in quarantine in the buffer zone for further pesticide tests (European Commission 2012); during this time there was an attack on the storage, in which the potatoes were burnt (Interview no.3). Upon this development, the Turkish Cypriot producer was furious, complaining that although he had complied with all the procedures he was still blocked from trading (Interview no.5). Furthermore, it was reported in 2010 that while the Greek Cypriot authorities allowed some consignments of construction materials to cross, other consignments of the same materials were not allowed on the grounds that they were not CE certified (European Commission 2010: 7). These inconsistencies mean that even products whose trade is not explicitly prohibited cannot always be traded smoothly across the Green Line.

Fourthly, economic operators have reported that GLR trade is very bureaucratic, complex and slow—a ‘burden’ on the cross-divide economic activity that is disproportionate to the benefits obtained (European Commission 2014: 6). For example, economic operators mentioned that they faced numerous administrative problems when they tried to enter into business with operators from the other community (European Commission 2017: 6). This is important because although the GLR ‘opened a door’ for the Turkish Cypriot community to trade with other EU member states (and third countries) through the ports in the south, this is difficult to achieve. The Turkish Cypriot companies are not recognised in the south, and so they cannot carry out such trade on their own; the involvement of a company registered in the south is essential (European Commission 2011: 5). However, the complex administration for such trade is not very welcoming of businesses. Alternatively, Turkish Cypriot companies could register in the south (for the purposes of VAT payment), but this would lead to further technical as well as financial burdens for them (Interview no.24).

Regarding the movement of goods from the south to the north, double-taxation of the Greek Cypriot products (once by the RoC, and then by the ‘TRNC’) has been identified as the only significant obstacle the Greek Cypriot economic operators face. However, it should be noted that such economic activity has remained very low (see Figure 3), which might be making any other potential challenges less visible.
Movement of Services

The issue of non-recognition of Turkish Cypriot companies (both traders and service providers) is a serious problem for the movement of services, as it means that there is no legal basis for the economic interaction of service providers nor for the service providers and customers (without crossing the Green Line) across the divide. Therefore, movement of services (utilities, transportation, telecommunication, banking, etc.) is not possible except for small-scale services that depend on the movement of Turkish Cypriots to the south. For example, when the mobile telephone interoperability project was suspended in February 2016, it was reported that a legal amendment in the south was required before there could be cooperation between the telecommunications authorities of the north and the south (Sonay 2016, Üzgün 2016). However, this amendment was never made. According to the information provided by an ‘insider’ at the Cyprus News Agency, the reason is that “there is a legal obstacle stemming from the issue of application of the EU acquis, which does not allow cooperation with an institution [such as mobile telecommunication networks] in the invasion areas [the north]” (Kıbrıs Postası 2015). Thus, absence of a legal basis for cooperation of the telecommunication authorities across the divide prevented the trading of services between the mobile phone operators, at the time of writing of this report, hence the economic activity by the movement of services.

A similar barrier to the movement of services exists in the transportation sector as well. As the RoC deems all permissions and authorities of the north ‘illegal’, the professional driving licences23 and roadworthiness certificates24 issued by the ‘TRNC’ are also seen as invalid (Interview no.9; also see European Commission 2006: 5, 2012: 10, 2017: 6). Excluding political considerations, the RoC is unable to ensure that the above permissions/licences are in accordance with EU standards. For such crossings, the RoC authorities require Turkish Cypriots to obtain ‘acquis compliant’ licences issued by the authorities in the south (European Commission 2008), which increases the financial and practical costs. On the other hand, those companies that do comply with RoC requirements are still not allowed to commercially operate in the south. For example, Turkish Cypriot commercial vehicles can only ship Turkish Cypriot products to the south but not vice versa. Similarly, Turkish Cypriot busses cannot carry Greek Cypriot or non-Cypriot EU passengers to the south.

Consequently, Turkish Cypriot commercial vehicles are not admitted to the south. Besides excluding Turkish Cypriot companies from economic activity involving transportation services, we note that this causes a major set-back to the movement of goods in very practical ways too; i.e., shipment of products from the north to the south must either be made in multiple small consignments, or Greek Cypriot commercial vehicles must be used, as these are not subject to such restrictions by the north (European Commission 2010: 8). As the European

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23 Of all vehicles equal to or exceeding 7.5 tons of weight.
24 Of all vehicles exceeding 3.5 tons of weight.
Commission has also noted, this causes an economic disadvantage for Turkish Cypriot traders and transport companies (European Commission 2010: 8) and suggests that a more liberal approach by the RoC authorities would enhance economic co-operation between both communities across the Green Line (European Commission 2007b: 7; see also European Commission 2015a). Despite several attempts by the Commission to resolve this issue with the RoC authorities, there has been no solution (European Commission 2014: 8, 2015a: 8).

There are also major problems for movement of services in the area of tourism because—in absence of a solution to the Cyprus problem—the property issue remains disputed. An amendment to the penal code in the south in October 2006 posed a strong barrier for such activity penalising “any illegal use (including rent) of property [Greek Cypriot property in the north] with a sentence of seven years of imprisonment” (European Commission 2007b: 3). Given that approximately 78% of the private property in the north was previously owned by the Greek Cypriot community before the division of the island in 1974, this had initially caused concern among the Turkish Cypriot community and seemed to be a major barrier for the movement of persons on the island (ibid). However, the RoC did not apply this policy to ordinary Turkish Cypriot citizens per se (European Commission 2008: 3). Instead, this amendment deemed hotels in the north (which are built on Greek Cypriot property) as illegal and aims to discourage their ‘illegal’ use by Greek Cypriots and tourists (Interview no.40, no.42). Also, according to the interviewees, it aims to prevent development of the real estate and construction sector (not only on Greek Cypriot lands) in the north (Interview no.40, no.42). Therefore, the Turkish Cypriot and Greek Cypriot travel agencies or other bodies in this area cannot cooperate (Interview no.42; Mehmet et al. 2008: 5).

In the area of electricity, the two sides found an indirect solution to cooperation that could work around the problem of political recognition of the electricity authority in the north. As previously indicated, there is occasional electricity trade between the two sides. While this poses a problem regarding the invoices and paperwork, an official from the Cyprus Turkish Electricity Authority indicated that the bills for electricity exchange are issued from the provider authority to an individual on the other side, rather than directly between the authorities (Interviews no.41, no.38). This indicates the need for a workable legal basis for further and more effective economic interaction of the service sectors.

**Movement of Persons**

In the area of movement of persons, a significant proportion of the population in the north of Cyprus cannot cross to the south. This is because the air and sea ports in the north as well as the residence permits issued by the Turkish Cypriot authorities are seen as ‘illegal’ by the RoC (Interview no.44). As a consequence, ‘TRNC’ citizens of Turkish or other origin, and third country nationals residing in the north (such as students, immigrants, workers) and their children are not allowed to enter the south. Notably during the pre-EU accession period, a number of concrete examples of this legal complication were reported. Some residents in the
north who tried to cross the Green Line were taken into custody by Greek Cypriot police and charged on the grounds that they had entered the country via ‘illegal’ routes (ports in the north) (see Hürriyet 2003g). Moreover, even EU citizens arriving on the island from a port in the north were not allowed into the south due to the same legal complexities.

This approach was abandoned with regard to EU citizens in the post-accession period, as the EU places considerable emphasis on the free movement of EU citizens across the island, regardless of their point of entry into Cyprus (Interview no.12). This can be seen in the following preamble in the GLR: “While taking into account the legitimate concerns of the Government of the Republic of Cyprus, it is necessary to enable EU citizens to exercise their rights of free movement within the EU” (European Council 2005a: par. 7). The GLR did not however ‘resolve’ this complication regarding non-EU citizens living in the north. Therefore, a significant proportion of the population living in the north of Cyprus cannot move across the Green Line. This situation creates a huge loss to the potential economic activity that would result from the movement of those persons to the south as consumers.

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This section has shown how legal obstacles severely limit economic activity across the Green Line. A key aspect, which must be noted, is that the extent to which the cross-divide economic activity is subject to legal and administrative obstacles indicates the shortcoming of the GLR in providing a strong legal framework for such activity. Specifically, the GLR fails to provide a mechanism that would allow the legal (and political) complications to the cross-divide economic activity to be by-passed until there is a solution to the Cyprus problem. The next section will analyse how the politics of division affect this economic activity.
POLITICAL OBSTACLES TO ECONOMIC ACTIVITY ACROSS THE GREEN LINE

This section shows that politics of division in Cyprus plays a defining role in economic activity across the divide in Cyprus, and guides the approaches of both the RoC and the 'TRNC'. Precisely, within the context of the ongoing de facto division of the island, both the RoC and the 'TRNC' act in ways to protect their own political interests. The RoC deems all decisions, institutions, and authorities related to the 'TRNC' as 'illegal' in order to prevent what is referred as ‘recognition by implication’ and to protect its status as the sole recognized government of the whole island. Similarly, the 'TRNC' as a non-recognized state seeks greater legitimacy and recognition to its ‘authority’ regarding the affairs of north Cyprus. The attitudes of the RoC and the ‘TRNC’ regarding economic activity across the divide send negative messages to the economic operators and limit the development of the economic activity across the divide.

The RoC and the Cross-Divide Economic Activity

Within the politics of division, it is a widely acknowledged priority of the Greek Cypriot political elites to safeguard the status of the Republic of Cyprus (RoC) as the sole internationally recognized government of the whole island (Interview no.30, no.1). Accordingly, the RoC considers illegal all institutions and authorities of the ‘TRNC’, including licences issued and companies established through its bodies. Greek Cypriot political elites believe that accepting these bodies of the ‘TRNC’ as legal would lead to upgrading the status of the ‘TRNC’; in other words, by granting it and its institutions some form of legitimacy, they would be granting the north recognition by implication (for more on ‘recognition by implication’, see Ker-Lindsay 2012, Kyris 2018). This greatly impacts the political atmosphere that surrounds the cross-divide economic activity.

The relevance of the politics of division in the attitude of RoC officials regarding the cross-divide economic activity can be contextualised by the following quotations. In an interview, an EU official indicated that there is a link between the solution of technical issues regarding economic activity and the political conditions:

We [the European Commission] came across a number of technical issues […] but the message we get from the Republic of Cyprus is that […] they are not ready to make efforts to resolve those problems because political conditions are not right. (Interview no.18)

One of those technical issues has been the dispute over banning Turkish Cypriot commercial vehicles from crossing to the south. Another high-ranking EC official admitted that this has
been “one of the most frustrating issues” in the Commission’s dealings with Cyprus (Interview no.12). The GLR does not, in fact, impose limitations or conditions on the crossing of Turkish Cypriot commercial vehicles to the south; yet despite various attempts by the EC to solve the matter with the Greek Cypriot authorities, the issue remains unresolved (European Commission 2014; interview sno.12; no.18; no.33).

Similarly, with regard to the mobile telephone interoperability project, Phidias K. Pilides, head of the CCCI, stated in June 2015 that:

The technical aspect is easy to solve [but]... We live in a divided country, there are certain sensitivities that must be considered... I wouldn’t like to elaborate on this point, what I’m referring to is obvious – they are matters of legality. (Anastasiou 2015)

Despite Pilides’s caution on legality, his references—to the division of the island “we live in a divided country” and to the “certain sensitivities” he feels—reveal how the politics of division is a defining factor in the cross-divide economic activity and the attitudes of both the RoC and the ‘TRNC’ about such activity. The question of how this service would be provided has been very puzzling. Through a statement by Fikri Toros, the then president of the TCCoC, it can be seen that the two Chambers of Commerce paid specific attention to accommodate the political sensitivities of the RoC:

We do not name this project as roaming. This word would be used in the case of international calls. The case here is not seen as calls between two counties, but between two communities of one country. Therefore, we take it as ‘inter-connection’. (Halkın Sesi 2015)

Despite the sensitivity to how this service would be named or would materialize, in practice, trade (of services here) requires the involvement of two sides. For the mobile phone operators across the two sides to trade services, the telecommunication authorities of the two sides need to interact. Here, the Turkish Cypriot telecommunications authority had to be treated as such (i.e., as an authority) if trading mobile phone charges were to take place. This, of course, contradicts the position of the RoC regarding the politics of division – which wants to prevent ‘recognition’ of the ‘TRNC’ (and its institutions) by ‘implication’. Eventually, the RoC stated that the project required an explicit legal amendment in the south, which was not possible due to certain limitations implicit in the EU *acquis*. Therefore, such amendment was never made and the project was never authorized at the time of writing of this report.

The same approach can be seen with regard to the movement of persons. The RoC deems the ports in the north ‘illegal’ because they are outside its control as the ‘legitimate’ government of the whole island. As we will discuss in the next section, this prevents a large population in the north from crossing the Green Line—mainly because the RoC claims those people arrived the island via ‘illegal’ routes and have no right to reside on the island. Thus, a large population in the north is excluded from economic activity across the divide. Similarly, it has been reported that non-EU tourists arriving at airports in the south can encounter problems if they intend to head directly to the north for the duration of their stay. For example, in April
2017, a group of 13 Serbian children and their adult supervisors, who came to the island to participate in a children’s festival in the north, arrived at Larnaca airport in the south. However, the group was denied entry with the excuse that they were heading to the “illegal state” (Milliyet 2017; Cyprus Mail 2017d). This example reveals how the politics of division also affects the tourism sector in the north, as they cannot fully benefit from tourist arrivals at the airports in the south. However, looking at the bigger picture, it can be seen that the political sensitivities play a huge role regarding the economic activity across the Green Line.

The ‘TRNC’ and the Cross-Divide Economic Activity

The ‘TRNC’ claims authority over the affairs of the north Cyprus. However, within the context of its territorial and political contestation with the RoC, it remains as a non-recognised state that seeks recognition and international legitimacy either as an independent state or as a part of a bi-zonal federation. Similar to the RoC, the politics of division also plays a visible and guiding role in the ‘TRNC’s approach to the cross-divide economic activity.

The ‘TRNC’ is generally neutral about the economic activity across the divide because it treats this activity as trade with another country (‘imports’ and ‘exports’); therefore, the Turkish Cypriot political elites have not been very restrictive. This does not contradict the ‘TRNC’ stance regarding the politics of division but in fact contributes to the ‘TRNC’ stance as a ‘state’ in control of the affairs of the north Cyprus. A similar inflexible attitude can be found regarding the mobile telephone interoperability project. It can be argued that the Turkish Cypriot leadership support for this project was because it did not challenge the ‘TRNC’ position within the context of politics of division, but on the contrary, would bring some form of recognition to the telecommunications authority in the north. In other words, this project complied with the ‘TRNC’ position in the politics of division, seeking more recognition, therefore was supported.

In the same vein, in contrast to the RoC authorities, the ‘TRNC’ allows every individual on the island to cross the Green Line into the north (unless there are threats to public security). This is because the ‘TRNC’ authorities treat every individual crossing to the north from the south as tourists entering the country from abroad, regardless their point of entry to the island (Kirbaki 2003c; Kıbrıs 2004b; interview no.46). From the perspective of the Turkish Cypriot political elites, this activity even reconfirms the existence of the ‘TRNC’ as a state, which is in control of who enters and leaves the north by crossing the Green Line. On the other hand, while Turkish Cypriots can move to the south and live there, Greek Cypriots are still not permitted to settle in the north, buy property, or easily reclaim their property from the pre-1974 period (Interview no.46). Similarly, the permission for the Greek Cypriot commu-

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25 While the Greek Cypriot community cannot receive their properties back altogether or as a community, it is worth mentioning that the Immovable Property Commission of the ‘TRNC’ offers restitution, compensation and exchange to individual Greek Cypriot applications. Cases are examined in view of the bi-zonality and bi-communality principles of a future solution to the Cyprus problem. The Commission was established under the Immovable Property Law (No. 67/2005) of the ‘TRNC’ in accordance with the rulings of the European Court of Human Rights (ECtHR) in the case of Xenides-Arestis v. Turkey. It has been recognised as a domestic remedy for the property claims of Greek Cypriot community by the ECtHR (TAMK 2019).
nity to organise religious ceremonies in the north is subject to the Turkish Cypriot authorities. Therefore, although there is movement of persons across the Green Line, there is no indication that this is a departure from the politics of division.

Nevertheless, a Turkish Cypriot farmer revealed that there have been occasions when farmers were discouraged by Turkish Cypriot officials from trading with the south. According to the interviewee, an official told them in 2005 that trading with the south would use water resources of the north: “so what, should we use our water supplies for Greek Cypriots to eat cheap potatoes and watermelons?” (Interview no.22). The same interviewee said that, in 2014, Turkish Cypriot farmers were told by another official from the same institution “give it up, don’t bother, and don’t make us bother too. We will give you each a minimum wage salary and give up on these things [trade with the south]” (ibid). However, Turkish Cypriot producers who want to trade with the south do not encounter huge problems from the ‘TRNC’ officials in general because it is politically ‘tolerable’.

On the other hand, the Turkish Cypriot political elites have been extremely strict about movement of goods from the north to the south with regard to extra-island trade: specifically, Turkish Cypriots using the ports in the south for exercising their trade privileges with the EU and/or for trade with third countries. This is mainly because during the mid/late 2000s, the Turkish Cypriot elites were expecting the EU to pass the Direct Trade Regulation proposed by the European Commission. That would significantly lessen the isolation in the north by enabling Turkish Cypriots to enjoy trade privileges directly from the ports of the north. If Turkish Cypriots used the ports in the south for such trade instead, it would ‘refute’ the Turkish Cypriot political elites’ argument that the ports in the north should be opened to trade privileges with the EU (Interview no.30, no.27). In other words, it would challenge the ‘TRNC’ position in seeking greater recognition/ ties with the world within the politics of division.

Within this context, Turkish Cypriot traders who wanted to utilise the GLR and trade with the EU through the ports in the south have encountered many difficulties in the form of administrative difficulties (such as cancelling trade permits) as well as political pressure from the ‘TRNC’ government and political elites to give up this kind of trade. For example, a consignment of 22 tons of citrus fruits, which was to be shipped to an EU member state through Limassol port in the south, was cancelled at the last minute on 29 March 2006 (European Commission 2006: 6). Similarly, in 2006 two very large consignments of potatoes (3800 tons, which combined the harvest of approximately 50 producers and represented one quarter of the whole spring harvest in the north) were expected to be shipped to other EU member states through ports in the south. However, due to strong political pressure from the ‘TRNC government,’ this trade was cancelled at the last minute (European Commission 2007b: 8). One of the economic operators who attempted such trade, explained that reasons for giving up this kind of trade were 80% due to harassment and difficulties raised by the Turkish Cypriot authorities and 20% through difficulties raised by the Greek Cypriot authorities (Interview no.27). According to the interviewee:
The government in the north cancelled my trade permissions several times. In 2009, the government used pressure to buy all the potatoes from the farmers who worked with me, and burnt them after dumping them into a creek to prevent me from trading with the EU via the ports in the south. I had a million-euro economic loss because I had to comply with the trade agreements that I had made in other EU countries. I am no longer trading with the EU under the Green Line regulation.

Furthermore, an anonymous source said that Turkish Cypriot economic operators were given an ultimatum by the then Turkish Cypriot leadership in the late 2000s that “they must not sell even one kilogram of potatoes to the EU by using the ports in south” (Interview no.27). As indicated previously, this kind of extra-island trade has been exceptional. The ‘TRNC Department of Trade’ no longer issues trade permits to Turkish Cypriots to trade via the ports in the south (Interview no.28). Consequently, it can be seen that the politics of division plays a significant role in the ‘TRNC’ approach to the economic activity across the divide.

Political ‘Beliefs’ on the Implications of the Economic Interactions on the Future of the Cyprus Problem

A very interesting and significant finding is the mismatch between the EU’s and the Greek Cypriot political elites’ assumptions about the future implications of the economic activity across the divide. As indicated earlier, the EU approach to the Cyprus problem in the post-accession period predicts that greater economic interactions between the north and the south of the island will promote economic interdependence and integration of the island, which will facilitate reunification of the island. On the other hand, the Greek Cypriot political elites do not wish to see economic development of the north because their overarching political belief is that such a scenario will prevent reunification of the island or will make it less likely. This can be also be read as the political calculation that it will be harder to convince an economically stronger north to accept a solution plan closer to Greek Cypriot interests.

Recently, a high-ranking Greek Cypriot official indirectly confirmed that economic development is not something that is desired by the Greek Cypriot political elites. According to the interviewee,

Why would they [Turkish Cypriots] be encouraged to live together [with Greek Cypriots] if we provide them the chance to live separately [in reference to the Direct Trade regulation]?” (Interview no.16)

In the past, the then president of the RoC, Papadopoulos, openly stated that spending money in the north in such a way as to support the ‘pseudo state’ was ‘unacceptable’ (Yeni Düzen 2003a) because it would sustain the division of the island (Halkın Sesi 2003b; Milliyet 2003). Similarly, Giorgos Lilikas, the then Greek Cypriot Minister of Industry and Tourism, argued that, “the government is against Greek Cypriots spending the night in the north from the first
day. It is unacceptable” (Hürriyet 2003d). This clearly presents a negative message to the public regarding the movement of consumers as well as persons in general.

Guided by this political belief, the RoC undertook certain measures to restrict the movement of consumers from the south to the north; e.g., the amendment to the penal code in the south that penalises the ‘illegal use’ of Greek Cypriot property, especially hotels and casinos (Interview no.40, no.42). Then, in May 2017, the RoC cabinet approved a project to build Europe’s largest and only integrated casino resort (within the areas that EU law applies) for which the investment exceeded €500 million, as well as satellite casinos in each of the four districts in the south (Cyprus Mail 2017a, 2017b). According to the House Commerce Committee chair, Angelos Votsis, it is hoped that “casinos would stop the ‘bleed-out’ of tourists to the north of the island” (Cyprus Mail 2017c).

According to a former president of the TCCoC and a Turkish Cypriot businessperson, the aforementioned Greek Cypriot political belief is wrong. According to him:

In their calculations, the Greek Cypriot side thinks the Turkish Cypriot side wants a solution because they are economically weak. However, this is a hugely incorrect calculation. The Turkish Cypriot side not [only] approved the Annan Plan [65% of the Turkish-Cypriots voted ‘yes’] for economic yields, but for democratic gains and to acquire their [legal] status under the international law. (Interview no.30)

Similarly, an official from the TCCoC commented that this belief is outdated and only works to alienate the Turkish Cypriots further:

There is this outdated belief regarding the need to contain our [Turkish Cypriot] economy as a means of containing the separation of North Cyprus. In fact, the economic embargoes laid down by the GCs help alienate the TCs further. (International Alert 2015: 62)

Turkish Cypriot political elites also frequently said that economic development of the north would facilitate reunification of the island rather than making it more difficult (Interviews no.46, no.9, no.13). However, it is also worth acknowledging that the interviewees were also very critical. According to a senior Turkish Cypriot official, most of the problems encountered regarding the Green Line trade are due to the Greek Cypriot officials’ ‘paranoia’ over recognition of the ‘TRNC’:

Greek Cypriots prevented working of the Green Line Regulation [full implementation of it] as they do in all other issues because of their ‘paranoia’ that such actions can resemble some sort of recognition of an administrative structure in the north. [For example] Our commercial vehicles, lorries, busses can travel everywhere from Turkey, reaching London in the UK; however, they cannot cross to the south in Cyprus because Greek Cypriots do not accept our certificates. Bulgaria accepts our certificates, Austria accepts, the UK accepts, but the Greek Cypriots don’t because this would come to mean recognition of the TRNC for them. (Interview no.9)
Similarly, a high-ranking representative of Turkish Cypriots in Brussels criticised that,

The Green Line Regulation showed us how unwilling the Greek Cypriots are to cooperate with us, and also how incapable the European Commission is, because despite certain things that are our right [allowed] within the scope of the GLR, the Commission has not managed to help us to use those rights. (Interview no.12)

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This section has shown that politics of division plays a significant role in the economic activity across the divide and limits the development of such activity as a linkage between the north and the south. Despite certain limits in the design of the GLR, it could have become a format for economic linkages; however, both sides took measures that reinstated the division and affirmed their status. The political wrangling between the RoC and the ‘TRNC’ as well as the perceptions of the two sides about the future implications of increased cross-divide economic activity on the unsettled Cyprus problem have prevented development of a depoliticised trading environment. Especially, the widespread belief among the political elites in the south that economic development of the north will prevent reunification of the island contradicts the EU approach to the Cyprus problem, which proposes that such development is a prerequisite for reunification of the island. It appears that the Turkish Cypriot political elites take a position more in line with the EU than the Greek Cypriot political elites. However, it must also be noted that this does not necessarily indicate the Turkish Cypriot political elites’ willingness for the reunification of the island. It could be suggested that the ‘TRNC’ would prefer a scenario of economic development of the north within the context of the politics of division, as this would make the north economically stronger and more capable of maintaining its authority over the affairs of the north Cyprus. Within this context, the politics of division has made the cross-divide economic activity something to be tolerated at best, or avoided rather than promoted. It is also important to acknowledge that the way that cross-divide economic activity has been subject to the politics of division indicates the shortcoming of the GLR to provide a strong and comprehensive legal framework for such activity, e.g., creating a mechanism to by-pass the political and legal complications stemming from the ongoing de facto division of the island until a solution is achieved.
PSYCHOLOGICAL BARRIERS TO ECONOMIC ACTIVITY ACROSS THE GREEN LINE

Having just examined the administrative and political obstacles to economic activity across the divide, this section explores the psychological barriers. It is argued here—although not all agree—that many in the Greek Cypriot community strongly believe that economically supporting the Turkish Cypriot community is inappropriate and even wrong. Underlying such feelings is, above all, the political belief that this will prevent reunification of the island; a second reason is fear of economic competition and potential job losses. These beliefs and the various protests and pressures against engaging in inter-communal business play a major role in preventing development of inter-communal economic activity. There is also opposition in the north; e.g., in 2007 and 2008 there were protests against those Turkish Cypriots who were using/wanted to use the ports in the south for trade. In the north, however, opposition to trade is mainly guided by economic considerations, particularly job losses. There is not the same belief in the north that cross-divide economic activity is politically inappropriate.

Psychological Barriers
Many Greek Cypriot consumers are generally reluctant to purchase Turkish Cypriot products or services due to psychological barriers that are deeply connected with the broader context of politics of the unresolved Cyprus problem (European Commission 2010:8, 2012: 8, 2017: 6; Hatay et al. 2008; interview no.7). This reluctance develops from the idea that economically supporting the north is wrong and inappropriate. The explanations can range from the conviction that the economic development of the north will prevent resolution of the Cyprus problem and reunification of the island to nationalist attitudes that stigmatize the Turkish Cypriot community and Turkey as an inherent threat (Interviews no.5, no.1, no.4). These beliefs and attitudes impact daily economic life in multiple ways.

Firstly, it has not been possible for Turkish Cypriot producers to stock any branded end/shelf products in Greek Cypriot supermarkets (European Commission 2007: 8, 2012: 8, 2017: 6). According to the president of the CTCI:

We lobbied the Greek Cypriot supermarket unions to put some Turkish Cypriot end products on the supermarket shelves in the south […] Members [of the unions] were very reluctant, fearing they might be despised publicly and it has never materialised. (Interview no.21)
Consequently, the movement of goods has remained limited to products such as building and construction materials and agricultural products, which do not include branded packaging or any other indications that the product originates in the north. In such an environment, the number of Turkish Cypriot companies that have participated in the International Trade Fair organised in the south has also decreased over the years, from 53 in 2005 to 16 in 2006, three in 2007, and none since 2008 (European Commission 2008: 7). This practice is not reciprocated in the north with respect to the goods from the south. Depending on the demand, some well-known Greek Cypriot products (such as alcoholic drinks, coffee) appear on a number of Turkish Cypriot supermarket shelves, and this has not been criticised by the Turkish Cypriot community (Interview no.3).

Secondly, Turkish Cypriot economic operators have also been unable to advertise their products (and services) in Greek Cypriot media outlets (see, for example, European Commission 2008: 9). An interviewee stated that there was in fact only one instance of advertisement, during the early years of the GLR implementation. However, the newspaper received such widespread criticism from the Greek Cypriot civil society that it has never again advertised Turkish Cypriot products (Interview no.6). It should be noted that this is similar to the reason why Greek Cypriot supermarkets refuse to stock Turkish Cypriot products – they fear becoming the target of public and political criticism for having done something deemed inappropriate. We note that a former TCCoC president admitted that they have attempted to convince the Turkish Cypriot newspapers that they should not advertise Greek Cypriot products (Interview no.8) when advertisement of Turkish Cypriot products and services is barred in the south, even though they have not always been successful (Interview no.3).

Thirdly, economic cooperation in the area of tourism services is also severely affected by the current context of politics of division. According to Zacharias Ioannides, Director General of the Cyprus Hotel Association in the south:

As long as the property question remains pending, it will be difficult, if not impossible to have a member of the Cyprus Hotel Association sit at the same table with someone who illegally operates a hotel unit in the occupied area owned by our member. This makes cooperation very difficult if not impossible. (Mehmet et al., 2008:77)

This stance reflects the psychological barriers among the Greek Cypriot community, which interprets economic interactions with the Turkish Cypriot community as inappropriate because of the division of the island and the legal obstacle of the unresolved property issue. A 2008 survey found that 89% (among 92 respondents) of Greek Cypriot tourism professionals (including tourism agencies, hotel owners, hotel managers, etc.) were reluctant to engage in joint activities with Turkish Cypriot tourism professionals in view of the current political situation. Some reasons for this reluctance—other than poor profitability—are revealing of the psychological barriers among the Greek Cypriot community such as “it is inappropriate”, “we do not want”, “invaders occupied my home and my business” (Mehmet et al. 2008: 5). While the level of cooperation between Turkish Cypriot tourism professionals and their
southern counterparts has also been low (20% among 70 respondents), this is explained by factors such as lack of interest and poor profitability rather than political issues (ibid: 6). It should be noted that there are many new hotels in the north that were built after 1974 and not on Greek Cypriot property. Nevertheless, there still has been no economic cooperation, pointing to deep-seated psychological barriers to cross-divide economic cooperation.

Even when Greek Cypriot companies do trade with the north, they often are extremely careful to maintain a low profile regarding their cooperation due to fear of being targeted with criticism and even extremist reactions. Therefore, according to an interviewee Turkish Cypriot producers have often been told by their Greek Cypriot buyers “please bring the products in the evening, so that nobody can see me” (Interview no.1). One of those Turkish Cypriot traders related in an interview:

> When I deliver our products to the south, I am often asked by the Greek Cypriot buyers to take off all the tags and stickers indicating that the product is made in the north. They don’t even want me to dispose of these in the bins at their place just to make sure that no one will discover that they trade with a Turkish Cypriot company. So, after I complete the procedural work on movement of goods to the south and arrive at the buyer’s place, I take the tags off in my vehicle before unloading the goods and I keep them in my vehicle to dispose of later. (Interview no.25)

**Resistance and Pressure**

The aforementioned psychological barriers do not stem solely from the buyer’s reluctance because of ethical considerations (politics of division/ supporting the ‘enemy’) but also because of pressure from the wider public and fear of the Greek Cypriot political authorities (Interviews no.7, no.8).

Firstly, according to a Turkish Cypriot economic operator who is involved in Green Line trade, “we know that people who were buying from the north were targeted and experienced an increased number of visits from government officials [on document and permission checks]” (Interviews no.48, no.1, no.2). While this is not a punishment *per se*, it makes the buyer uncomfortable, especially considering the position of the Greek Cypriot officials on the economic activity highlighted in the previous section. The Greek Cypriot Church, as an influential actor in Greek Cypriot civil society, has also been very critical of economic interactions between the two communities. For example, when the south purchased electricity from the north in 2011 and 2012, the Church disparaged this action, stating that, “we should light up candles but not use ‘Turk’ electricity” (Interview no.8). Furthermore, when the Church discovered that a Greek Cypriot municipality had purchased stone materials from the north to construct the pavements in the south, it called on the Greek Cypriot community “not to walk on the Turkish stones” (ibid).

Furthermore, a plastics producing company in the south sent out warning letters to Greek Cypriot companies in 2009, asking— and also in a way blackmailing— them to end their economic activities with the Turkish Cypriot community:
Dear Customer,
Recently various products have been seen in the market aimed to compete with our company's products. The producing company of these products cannot be found [...] our fully correct information confirms that these products come from our invaded territories, specifically, produced in our factory in Famagusta illegally, which was taken from us in 1974. Therefore, besides such activity being insulting, it is also causing unwanted competition for us. This insult is not only for us, as legal owners, but also for the people of Cyprus as a whole. It is not only harming our national dignity that this factory, which belongs to us, is raped by the invader Turks with some cooperating Greek Cypriots, it is also damaging our national dignity [...] Therefore, during the time of this economic crisis, we need to act to protect our national economy and dignity... We will begin with expecting you to support our rightful views [and not buy the Turkish Cypriot products]. Otherwise, we will take every serious measure needed not only against the invaders, but also those who accept their products. For example, we will invite those who cooperate with them to give up, publicize their names, and will announce our reason to end cooperation with them [...] 26

Secondly, there have been public protests in the Greek Cypriot community calling inter-communal trade 'inappropriate' and 'unacceptable' (Cypriot News 2003; see also Halkin Sesi 2003b; Milliyet 2003). Many Greek Cypriots oppose the movement of Greek Cypriot (and tourist) consumers to the north (such as for casinos, hotels, restaurants, and shopping) for the same reasons as the government—because supporting the Turkish Cypriot economy will ensure the permanent division of the island. They also believe that competition can lead to negative outcomes such as job losses, besides believing that the competition is unfair because Turkish Cypriots do not need to abide by costly EU standards (Interview no.13). 27

In 2003, the Greek Cypriot tourism and hotel unions and associations, namely KOT (Cyprus Tourism Organisation), ACTA (Association of Cyprus Travel Agencies), PASYXE (Cyprus Hotels Association), and STEK (Cyprus Tourist Enterprises), openly criticised Greek Cypriots (and tourists) for crossing to the north for entertainment and staying in the hotels there (Hürriyet 2003d). Foreign tour operators were also warned that, “the Cyprus government cannot ensure safety of tourists, who cross to the north of the Green Line” (ibid). In 2004, the then president of KOT, Fotis Fotiou, stated:

Hundreds of Greek Cypriots gamble in the north and stay in the hotels there... [also] tourists come to the island [via the ports in the south] from Israel, Egypt, Dubai and Lebanon and cross into the north to go to casinos…it is necessary to open a casino in the south for political reasons. (Kibris 2004d)

26 Letter sent to Greek Cypriot companies by a Greek Cypriot plastics producing company in 2009. The letter is in the hands of the author, given to him by one of the interviewees.
27 It is worth noting that the argument that vehicle licencing has lower standards in the north has been rejected by Turkish Cypriot officials (Interview with no.13, interview no.9).
A group named “Magromadis National Club” also distributed leaflets at the check points in 2003:

Attention! The area beyond the crossing point is European territory under ‘invasion.
Do not cross unless for worshipping in the holy sites and churches and/or showing your
descendants their ancestors’ Hellenic heritage, graves, and houses. (Hürriyet 2003c)

As noted above, the RoC government eventually approved a large project in 2017 to construct
casinos in the south to cope with what has been called as a ‘tourist bleed-out’ to the north
(Cyprus Mail 2017c).

Similarly, regarding the crossing of Turkish Cypriot commercial vehicles to the south, the
European Commission came to an agreement with RoC officials in 2006 to resolve this issue. The Greek Cypriot authorities informed the Commission that, “the Republic of Cyprus began preparatory work on legislation with the aim to facilitate Turkish Cypriot lorries to transport goods across the Green Line” (European Commission 2006: 5; see also 2007b, 2008). Upon this development, the Greek Cypriot truck drivers organised a protest against this attempt (European Commission 2006: 5). As a result, the Greek Cypriot parliament stepped back and did not take a decision on the issue (European Commission 2008: 7). Similarly, a recent report regarding the implementation of the GLR indicated that there has been pressure on Greek Cypriot traders by Greek Cypriot producers in relation to potatoes coming from north Cyprus (European Commission 2017: 6).

Regarding the Turkish Cypriot community, in 2007 and 2008 similar protests were made	by Turkish Cypriot truck drivers and dock workers at Famagusta port and the crossing points
(European Commission 2006: 6). They loudly protested the first Turkish Cypriot businesspersons who increasingly used the ports in the south for trading with other EU countries and third countries back then. They were also concerned with competition and job losses and worried that diminishing use of haulage and ports in the north would take away their jobs (Interview no.9). This issue was also reflected in one of Turkey’s leading newspapers with the title of “A Turk [Turkish Cypriot] is using the Southern port: ‘Potatoes treason’ boomed in the TRNC”, and the names and photographs of the traders (Hürriyet 2006). Since then, no permissions have been given to Turkish Cypriot businesspersons by the ‘TRNC Department of Trade’ to trade with other countries using the ports in the south.

Thirdly, there have been also some cases where extremism has prevented economic activity across the divide.28 Ali Çirali, head of the Turkish Cypriot Chamber of Industry (TCCI) referred to an incident that occurred in 2007. In his words:

A Greek Cypriot builder agreed with a Turkish Cypriot craftsman to build doors and windows of 40 villas in the south. The Greek Cypriot builder and his company asked for the work of two villas to be done before the whole work, and if the company liked

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28 See Katsourides (2013) for more on (re)emergence of nationalist extremist groups in the south after the opening of the check points in 2003.
it, they would give the whole site to the Turkish Cypriot craftsman. However, as we heard, men with black balaclavas appeared in the night and threatened the Greek Cypriot builder for doing business with a Turkish Cypriot. So, the builder gave up on the deal. (Interview no.21)

***

In this section we have shown that various forms of psychological and social pressure have prevented the development of a friendly environment for inter-communal economic activity. While there is strong thinking among Greek Cypriots that interacting economically with the Turkish Cypriot community is inappropriate, even those buyers who do not think this way feel a societal pressure to keep their economic interactions very low-profile, preferably ‘hidden’. This context creates an environment that prevents development of economic activity across the divide as a linkage between the north and the south.
CONCLUSION AND POLICY RECOMMENDATIONS

This research has investigated the extent to which the European Union’s Green Line Regulation (GLR) has contributed—through the movement of goods, services, and persons—to the development of economic activity across the Green Line that de facto divides Cyprus. Now we will provide a set of policy recommendations that could make the GLR a more effective tool for the development of economic, social, and political linkages across the divide.

First of all, it must be acknowledged that the GLR is a significant success on the grounds that it contains an ingenious legal mechanism that provides a lawful basis for the movement of goods and persons between an unrecognized entity and its metropolitan state. Such economic and human linkages prior to the implementation of the GLR in 2004 (though the movement of persons re-started a little earlier in 2003) were simply impossible. However, looking at its performance in terms of the economic activity it has generated over the last 13 years, we see that the GLR has only been partially successful. The level of economic activity has punched seriously below its potential for two main reasons: the design shortcomings of the GLR; the domestic factors intervening in this process (political, legal and administrative, and psychological). Therefore, the GLR has not been sufficiently instrumental in developing an economic linkage between the north and the south and/or strengthening the reunification political vector and uniting the communities as the EU had expected. In other words, it has not been able to meet its political objectives of developing economic interdependence and facilitating reunification of the island. Nevertheless, we will propose a set of policy recommendations that can foster economic activity across the divide and facilitate its development as a linkage between the north and the south.

Firstly, as it has been identified in this report, the obstacles at the domestic level (legal, administrative, political, psychological) have resulted in incomplete and minimal application of the GLR. At the same time, these obstacles are difficult to surmount mostly because the GLR does not provide a comprehensive and strong enough legal basis for the economic activity across the Green Line. For example, processed foods and food contact materials cannot cross from the north to the south, albeit they are not restricted by the GLR. To facilitate this trade:

i) The EC should be constructively involved to ensure full implementation of the GLR that concerns movement of goods. It can also consider utilizing its existing instrument to initiate an infringement procedure for failure to implement EU law if so warranted and deemed necessary.
ii) An arrangement can be made (in coordination with the RoC) whereby EU experts periodically monitor the Turkish Cypriot producers with regard to their products’ compliance with EU health and safety regulations. A database of certified Turkish Cypriot producers should be created to facilitate business partnerships with Greek Cypriot retailers, investors and producers.

iii) The EC should encourage the Turkish Cypriot authorities to abolish the VAT for Greek Cypriot products, or at least for certain categories of products.

While these steps are important, the legal and political obstacles to the cross-divide economic activity are not limited to the incomplete implementation of the GLR regarding the movement of goods. The movement of services has remained a dormant aspect of the GLR and has been largely excluded from the cross-divide economic activity. For instance, Turkish Cypriot commercial vehicles cannot cross to the south. Omission of the GLR to provide a strong basis for the movement of services significantly inhibits economic activity across the service sectors of the two sides. This impact is crucial, considering that both economies are service based rather than manufacturing – meaning that the economic activity through the movement of services would likely be greater. Similarly, a large population in the north is currently not allowed to cross to the south, a serious loss of economic activity to the south. In order to provide a more comprehensive solution to these obstacles in absence of a solution to the Cyprus problem, a bolder institutional approach can be taken. Particularly,

iv) A blanket or several piecemeal mechanisms should be developed in order to by-pass legal and political complications (legality and recognition/ non-recognition issues) stemming from the politics of division and enable direct or indirect cooperation between the institutions of the north and south until there is a solution to the Cyprus problem. Such step(s) in this direction would enable the movement of Turkish Cypriot professional drivers to the south, agreement between car insurance companies for island-wide insurances, movement of telecommunication services, movement of processed good and food products, and movement of more people in the north to the south. An emphasis on the temporary nature of such mechanism(s) could help to emancipate this attempt(s) from zero-sum politics.

Secondly, the scope of the GLR must be extended to make the economic activities across the Green Line more attractive for the economic operators in the north as well as the south. This scope is currently limited to wholly obtained domestic products (such as vegetables) and processed products, although trading of the products under the latter category is very problematic (see the previous recommendation). On this basis,

v) The GLR should be amended to enable trading of animal and animal products from the north to the south. For this, the EC must strengthen the technical and financial support it provides to the Turkish Cypriot community regarding the implementation of the relevant parts of the *acquis communautaire*. 
In the same vein, products imported into the north (even if from within the European Union Customs Union) cannot be traded across the Green Line unless they are heavily processed to obtain the status of domestic processed products. This is a major limitation to the range of products that can be traded under the GLR. If the Turkish Cypriot community could benefit from their special relationship with Turkey and sell Turkish products to the south, which are customs union products, this would significantly contribute to the economic activity across the divide (Interview no.2). Therefore,

vi) The EC could consider ways of amending the GLR to allow goods that are imported by the north to be traded across the Green Line.

While this recommendation was also previously echoed by the World Bank (2006), it should be acknowledged that there are practical, legal, and political difficulties associated with this recommendation. Particularly, the north is currently outside the EU customs union and such practice would not only bring the north de facto within it but would also oblige the Turkish Cypriot authorities to mirror the EU customs code and other relevant requirements. If this proves impossible,

vii) The EC could consider amending the GLR to allow the trade of lightly processed goods (as opposed to the current requirement of heavily processed) that are based on imported materials. This could be coupled with the demand for an equal response from the Turkish Cypriot administration regarding the movement of goods from the south to the north.

Thirdly, a major challenge regarding the EU’s liberal peace project for the island has been the fact that the ownership of the project ideals has remained at the EU level; the shift to the domestic level never occurred—at least not during the timeframe investigated in this report. As a result, through the 12 years of the GLR’s implementation, the two sides have only ‘tolerated’ some level of economic activity across the divide, rather than ‘encouraging’ it. Therefore, development of ownership of the liberal peace objectives among the Greek Cypriot and the Turkish Cypriot leaderships is essential. On that basis,

viii) The Greek Cypriot and Turkish Cypriot leaders should be encouraged to make public (ideally joint) statements acknowledging that GLR trade can benefit both sides and will facilitate reunification of their homeland.

ix) The two leaders should agree on opening additional check points with suitable infrastructure for further facilitating economic and social interactions across the Green Line.

x) The EU should scale up its support to the Chambers of Commerce and business associations on both sides, as well as to the mass media outlets that promote economic connectivity, including by affirmative messages from Brussels.

xi) A participatory and consultative process involving business communities, economists, Chambers of Commerce and other relevant groups and institutions from both sides, representatives of which would act in their individual capacity, would ensure the sense
of ownership on behalf of the beneficiaries. This would also ensure that amendments to the GLR would better resonate with the reality and capacity on the ground. The economic working group that accompanies the official peace process in Cyprus can be a source of learning and inspiration.

Such change of attitude would encourage businesses and citizens across the divide to cooperate in trade and would help to neutralise the ethno-politics in civil society, the psychological barriers in the form of fear of authorities, and the political bias against the products and services provided by the other community. On the other hand, it must be acknowledged that these policy recommendations (especially, viii) requires a shift in the core political considerations of the two leaderships: in other words, they must agree that a greater level of economic activity across the divide and the advancement of liberal peace objectives on the island will benefit both sides. The continuation of the territorial and political contestation, which frequently takes the form of maximalist policy preferences for both sides, is a major challenge to this recommendation. On this point, xii) The EC and the UN should help to persuade the two leaders that greater economic interaction and links are beneficial for both sides and will facilitate reunification of the island, including by regular critical assessment of the implementation of the GRL, evaluation of the economic rationale, identifying areas where business synergies would be mutually beneficial, and providing economic forecasts.

Even if only some of these recommendations were implemented, the GLR would become much stronger as a tool for the economic interaction across the divide and as a linkage between the two sides.
APPENDIX I. LIST OF INTERVIEWS

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The Green Line Regulation and its Potential for Cooperation in Cyprus


The Green Line Regulation and its Potential for Cooperation in Cyprus


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This report investigates the extent to which the European Union’s Green Line Regulation (GLR) has contributed to the development of economic activity across the Green Line—which de facto divides Cyprus—through the movement of goods, services, and persons. The particular timeframe for the research focus is between 2004, the first year of the implementation of the GLR, and 2017, which is the most current period for which there are European Commission reports on the implementation of the Regulation. The perspective adopted is that the GLR not only aims to satisfy the legal ‘need’ of accommodating the de facto division of Cyprus into EU law but also intends to act as an implicit tool for developing ‘linkages’ in the form of economic and social connections between the Greek Cypriot and Turkish Cypriot communities. In other words the development of liberal peace principles in order to facilitate reunification of the island. This political objective can be found not only in the GLR references to promoting greater ‘contacts,’ ‘cooperation,’ ‘interdependence,’ and ‘integration’ of the two communities, but also in other EU legislative instruments and statements regarding the Cyprus problem.

The examination of the implementation of the GLR over the last thirteen years found that, in terms of the legal aspects, (providing a workable basis) the GLR has been a significant success. This is because it contains an ingenious legal mechanism that provides a lawful basis for the movement of goods and persons between an unrecognized entity and its parent state. However, within the focus on the performance of the GLR in terms of the economic activity it has generated, the success has only been partial due to low levels of such activity. This is explained by two main factors: the design shortcomings of the GLR; and the obstacles to the cross-divide economic activity at the domestic level, which have intervened in this process (legal, administrative, political, and psychological). Within this perspective, the outcomes have also remained far below the political expectations regarding the development of economic interdependence between the north and the south. Following the analysis, in the final section of the report a set of policy recommendations is provided for making the GLR a more effective tool for the development of economic, social, and political linkages across the divide by fostering the cross-divide economic activity.